CORPORATE GOVERNANCE

Rev. 3/25

Shareholder Proposals to Be Presented

- Help tobacco farmers to convert to other crops. (a.k.a. Economic Conversion)
  - — Anne Northrup, Kentucky state legislator, raised issue at 1993 meeting (Q. 4).
  - — 1993 Response - processors and farmers need each other.
  - — See Tobacco Operations Q. 34.

- Halt efforts to restrict smoking in public places and to challenge ETS health hazards. (a.k.a. ETS)
  - — Primary Filer, Dr. Gregory Connolly proposed the Voluntary Code of Cigarette Advertising resolution at the 1993 meeting.
  - — See Litigation Q. 19.
  - — See Health Q. 4 - 5.

- Redeem the Poison Pill.
  - — Resolution presented by Anna Thompson, International Brotherhood of Teamsters, at the 1993 meeting and received 41.6% of the votes cast.
  - — See Corporate Governance Q. 9.

- Milk/Cheese Pricing.
  - — See Food Operations Q. 5 - 7.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Withdrawn Proposals

- Split the company into two separate corporations.
  - — Connell Shearin raised the issue at the 1993 meeting (Q. 20).
  - — 1993 Response - Board considers alternative strategies, but considers the current one the best.
  - — See Corporate Governance Q. ___
- Miller Television Advertising.
  - — See Advertising & Promotions Q. 8.
- Malt Liquor Marketing.
  - — See Advertising & Promotion Q. 4-5
- Place warnings on all forms of "cigarette/logo" advertising. (a.k.a. Global Warnings)
  - — Resolution presented by Fr. Michael Crosby of IRRC, at the 1993 meeting and received over 6.6% of the votes cast. Fr. Crosby is the Primary Filer for 1994.
  - — Fr. Crosby suggested that Marlboro gear, with its logos, is targeted to children.
  - — Timothy Smith felt that PM ads are manipulative and side step legal restrictions.
  - — Dr. Alan Blum, DOC, stated that the company risks fines by televising the Marlboro Grand Prix.
  - — 1993 Response - company does not violate the law in any way.
  - — See Advertising & Promotion Q. 19.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Philip Morris is one of the first major consumer packaged goods companies to hold its annual meeting in 1994, and RJR's annual meeting has been moved to May. Therefore, there are no 1994 annual meetings we can reference to obtain universal shareholder issues.

Perspective Meeting Attendees:

- TK

2022390876

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

General

1. What procedures are in place to review CEO performance?

   - Performance is reviewed and compensation determined by compensation committee.

2. With the problems presently being faced by PM, how can you justify spending time on the Boards of other companies, like Sears?

   - I serve on two outside Boards; Sears and Dean Witter.
   - Serving on other Boards provides valuable experience and ideas.
   - To attract other qualified Board members to PM's Board, I must in turn be willing to serve on other Boards.

3. Have you had any indication that any large group, such as CalPERS might want to try to make changes in PM's corporate structure, as happened at Sears?

   - No.

4. Have there been any instances in which the Board disagreed with a significant management decision?

   - Not to my knowledge.

5. Do you think that Boards of Directors should take a more active role in management?

   - There is nothing wrong with Boards being active.
   - Unless you serve on a Board, it is hard to say how active or inactive the Board is.

2022390877

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

6. Is the company CEO available to meet with shareholders upon request, and if so, on what basis?

- Yes, we would.
- Shareholders are owners, we value their ideas.
- We have a very active Investor Relations department which is always available for meetings.

7. Is there much contact between outside Directors and the company's top managers who do not sit on the Board?

- Monthly Board meetings offer regular opportunity for contact.
- Managers attend Board luncheons.
- Top managers make presentations to the Board, and attend major Board planning meetings and trips.
- There are informal question and answer sessions between the two groups.
- The company's top managers participate with the Directors in a 3-day strategy session to review the company's Five Year Plan.

8. How much communication is there between ordinary shareholders and top management?

- Company policy is to maintain open communication with all of its shareholders.
- There is a regular program of meetings between senior management, financial analysts and representatives of major institutions who are the beneficial holders of millions of shares of PM stock owned by "ordinary" shareholders.

2022690878

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Poison Pill

9. When does the company's shareholder rights plan (poison pill) expire, and what is your position with respect to extending the plan?

(U)
- The Rights Plan was passed by the Board on October 25, 1989.
- The Rights will expire on October 25, 1999, unless redeemed earlier or exchanged by the company.
- It is discussed in the 1993 Annual Report on page 35, Note 7.
- The company's position regarding the plan may be found on page 21 of the Proxy Statement.
- The resolution refers to 2 studies regarding the effects of rights plans on the trading value of the adopting companies' stock. The performance graph on page 12 of the proxy statement clearly contradicts those studies.
- The March 1988 Georgeson study concluded that companies with rights plans received takeover premiums averaging 69% higher than those received by companies not protected by such plans.
- An important study completed at a leading university (Rochester) concludes **there is no evidence** that the **mere existence** of anti-takeover measures contributed significantly to the end of the takeover boom of the 1980's. Contrary to the position taken by proponents, the study suggests that shareholder rights plans are "reliably associated with larger premiums for shareholders who sell their shares in a successful takeover."

2022990879

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Confidental Voting

10. What is the company's policy on confidential voting?

(U)
- Policy is stated on page 1 of the Proxy Statement: proxies and ballots that identify the vote of individual shareholders will be kept confidential except:
- As necessary to meet legal requirements—in cases where stockholders write comments on their proxy cards, or in a contested proxy solicitation.
- During the proxy solicitation period, the company will receive aggregate vote tallies from its Independent Proxy Solicitor, but not the name of stockholders.
- The independent inspectors will notify the company if a stockholder has failed to vote so that he or she may be reminded and requested to vote.

Golden Parachute

11. Are you considering a ban on golden parachutes?

- No.
- Employment contracts are essential in order to attract and retain superior employees for top management positions.

Committees

12. What do you think of shareholder demands that special committees be formed to investigate issues of current concern?

- We have special committees for compensation, audit, public affairs and social responsibility, nomination and investment.
- Additional special committees would not serve any useful purpose.

2022990880

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

13. Has the Board formed an Ethics Committee or Social Responsibility Committee?

- The committee on Public Affairs and Social Responsibility has been in existence for over 20 years.

14. Do the Nominating and Compensation Committees comprise only outside Directors.

- Yes.

15. Why has the company not established a Shareholder Advisory Committee?

- Not necessary.

16. How does the company keep its outside Directors informed of company matters?

- Meet 11 times per year.
- Regular reporting of all company operations at monthly Board meetings.
- Annual 3-day planning session to review company's 5-year plans.
- Presentations on specific operations at each Board meeting.
- Answer questions as they arise.

17. How does the Board actually participate in formulating company strategy?

- By reviewing and analyzing company's 5-year plans.
- By reviewing and analyzing all new investments exceeding $5 million and all increases in existing investments over $25 million.

18. Have any institutional investors sold large amounts of PM stock lately?

- To come.

2022990881

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

19. Have any officers, Directors, or their associates disposed of large blocks of company stock recently?

- To come.

20. Why did they exercise their options?

- We do not know, and we do not make inquiries into the actions of individuals as long as they conform to SEC regulations.

Composition of Board

21. Why don't you have more women and minorities on the Board of Directors?

- At this time we have two women Directors and one African-American on the Board.
- There have been times when there were more women and minorities on the Board.
- We are continuously evaluating potential candidates to fill open Board positions.

22. What is the percentage of outside to employee Directors?

- Out of a total of 20 Directors, 16 are outside Directors, 4 are employee Directors — Murray Bring, Bill Murray, Hans Storr, and myself.

23. Some of the people might think that having 20 people on the Board makes it cumbersome. Is any consideration being given to decreasing this number?

- Over the years we have had larger Boards.
- Broad and diverse pool of expertise beneficial to large company.

2080229082

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

24. Are there any Directors who might face possible conflicts of interest because they sit on the Boards of other companies with whom PM deals?

- Our lawyers have looked at any possible conflict of interest, and they do not feel there are any.

Directors' Independence

25. How independent are your Directors. Aren't most of them tied to the company in one business or another?

(U)
- Our Directors are very independent — both according to the SEC definition and in the way they approach issues.
- It is by no means unusual for big companies like ours to have its bankers or lawyers on the Board.

26. What criteria does the Nominating Committee use to establish the independence of Directors? Describe any interlocking relations among the Directors?

(U)
- We use the same criteria as when we look for Directors in general, like:
  - multinational business experience
  - diversity
  - governmental experience
  - academic experience, and
  - genuine interest in our business
- Compensation Committee interlock; described on page 7 in the proxy.

Board Composition

27. Do you think it is in the company's interest that former CEO's should be on the Board?

- Hamish Maxwell and John Richman have a wealth of experience in dealing with the many issues our company faces today.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

28. Has the company considered adding an environmentalist to the Board?

- All our Directors are responsible to all shareholders in every category of the company's operations, including environmental matters.

29. Are you thinking of having an employee representative on the Board?

- No.

30. Why was a new member added to Board?

- In anticipation of the 2 retirements taking effect at this meeting.

Stephen Wolf

31. Mr. Wolf has a long and distinguished history with the airline industry, but what expertise does he bring to the PM Board of Directors?

- Mr. Wolf is a strong and effective leader of a global business.

32. United Airlines recently began testing smoke-free flights on some of its international flights. How does PM feel that a member of its Board approved such a test?

(N)
- United Airlines certainly has the right to run their business as they see fit.
- Test is scheduled to run from March 1 to September 30. They may or may not become permanent, depending on consumer acceptance.
- It's unfortunate that those international travelers who smoke will be inconvenienced.
- This move reinforces the fact that our Directors are independent. Mr. Wolf is a strong leader of a global business.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Board of Directors Meeting

33. What was the average attendance of the Directors at the Board meetings?

- In excess of 90% in 1993.
- 16 of the 20 Directors attended 100% of the Board meetings and their Committee meetings.

34. Are the Directors paid their fee if they are absent?

- No.

35. How much time do outside Directors spend on company matters?

(U)
- Each Director, with the exception of Stephen Wolf, is member of one or more committees, some are members of four committees, and each committee meets 3 to 5 times a year for at least an hour each.
- Directors attend 11 regular Board meetings a year, which last about 3 hours each.
- Directors attend a 3-day planning session annually.

36. Where were Board meetings held in 1993?

- In New York at PM Headquarters.
- In Richmond, annual meeting.
- In Berlin, September 1993.
- In Northfield, May 1993.
- Planning meeting held in Williamsburg.

2022990885

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Annual Meeting Arrangements

37. Has the company considered rotating the annual meeting among location with large shareholder concentrations?

- We have considered it, but Richmond is the traditional home of PM.
- No benefit, could cost more to rotate.

38. Can nominations to the Board of Directors be made from the floor at the Annual Meeting?

- No.
- The company's By-Laws provide that nominations must be made in writing before the annual meeting.
- Rules for nominations are described on page 22 in the Proxy Statement.

39. What is the cost of holding the annual shareholders' meeting?

- The cost in 1993 was approximately $2 million.
- This included $185,000 for printing of the Proxy Statements.
- $1,150,000 postage for mailing Proxy Statements and Annual Reports.
- Rental of the tent and related expenses was $250,000.

40. Will a post-meeting report and a complete transcript be sent to shareholders?

- A post-meeting report is included in our First Quarter Report mailed to shareholders in May.
- Shareholders may review a complete written transcript at the company's headquarters, 120 Park Avenue, New York, upon written request to the Corporate Secretary.

2022990886

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

41. Why can't we hold the shareholders' meeting in an auditorium large enough to accommodate everybody?

- We could, but we like holding our meeting on our own premises.
- It would be more costly to rent a larger place.

42. Why isn't there a "No Smoking" section in this auditorium?

(U)
- There is a no-smoking section in the Tour Theater adjacent to this auditorium.
- This auditorium has very good ventilation.

Audit Matters

43. What steps have been taken to strengthen internal controls to prevent kickbacks and other employee-vendor fraud?

- The company maintains a system of internal controls to ensure that:
  - transactions are executed as authorized,
  - transactions are properly recorded,
  - assets are safeguarded,
  - accountability for assets is maintained.
- A professional Corporate Audit staff monitors the effectiveness of the controls.
- Key employees and Directors must certify compliance with the Business Conduct Policy each year and are requested to submit exceptions to such policy to the General Auditor or the Secretary of the Audit Committee for review.
- 800 number to anonymously report any wrongdoing.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

44. Do the corporate auditors report directly to the Audit Committee?

- The General Auditor, who heads the company's Corporate Audit Department, reports directly to the Executive Vice President and Chief Financial Officer.
- The General Auditor has direct access to senior management and the Audit Committee at his discretion.

45. What does the company do about auditors also auditing its competitors?

- Coopers & Lybrand has strict internal policies relating to the confidentiality of client proprietary information.
- It maintains separate engagement teams so that the same personnel would not serve major competitors.

Questions from "The Heroes" (Committee of Concerned Employees)

46. Why did the Proxy Statement fail to inform shareholders of the business affiliations of the Directors, a failure that constitutes fraud by omission?

- The Proxy Statement did not "fail to inform" shareholders of the business affiliations of our Directors. Their business titles and Directorships are set forth very clearly.
- The information in our Proxy Statement is required by disclosure rules of the SEC. We fully comply with those rules.
- The business relationships to which you refer are common and usual, permitted by the regulatory authorities and conducted — in all cases — at arms length.

2022990888

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

47. How can you justify the presence on the Board of many Directors whose qualifications and performance on the Boards is suspect at best?

- Qualifications of each nominee to serve are examined exhaustively by the Nominating Committee before it makes a recommendation to the Board.
- Many of our Directors also serve on the Boards of some of this country's most outstanding companies.

48. Why did the company deliberately misrepresent itself to the shareholders by concealing 1992 trade imbalances?

- We have never concealed trade imbalances.
- Any trade imbalances which may have existed resulted from reasonable sales assumptions which proved later to be incorrect. Both we and the trade made many of the same assumptions.
- Our returns have been minimal, which leads to the conclusion that although some of the sales assumptions were more aggressive than others, the vast majority were correct.
- A certain minimum level of inventory is necessary.

49. Why does the Board retain so many inside members who have a vested interest in maintaining the status quo? Are you willing to reduce inside Directors to two by 1995? How can the independence of the outside Directors be guaranteed when so many of them do extensive business with the company?

- Of the 18 Board members standing for reelection, 4 are insiders — Mr. Murray, Mr. Storr, Mr. Bring, and myself.
- Messrs. Maxwell and Richman are no longer involved in the day-to-day operations of the business.

2022990889

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

50. Mr. Miles, are you ready to take responsibility for the company "tumbling into the abyss" in which it now finds itself? Are you prepared to face legal action against the Board and management brought by the shareholders and employees?

- We have made a course correction, and we intend to make good on our promise to perform.
- There are hundreds of large companies in the US which can only hope to match our outstanding financial performance.

Benefits to Directors

51. Why give non-employee Directors shares of stock in addition to retainers and fees?

(U)
- This is a mechanism designed to increase the ownership position of our Directors, rather than provide only cash compensation to them.
- Also done to more closely align the Directors' interests with those of our shareholders.

52. Why give Directors retirement benefits?

- For competitive reasons; most large companies provide such benefits.
- This rewards Board members for longer terms of service. It acts as a retention vehicle.

53. What other benefits do you provide outside Directors?

- Outside Directors receive the following "benefits": Reimbursement for business travel and life insurance.
- Outside Directors have access to the following on a contributory basis (pay 100% of premium): Medical insurance, dental coverage, pension, and voluntary deferral opportunity for Director fees.

2022990890

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

54. Why does Mr. Miles have an agreement specifically related to termination benefits?

- When the KGF severance agreements were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.

55. Did the company engage in discussions this proxy season with any shareholder or shareholder group concerning the inclusion or exclusion of any shareholder proposal in the company's Proxy Statement? If so, give details.

(U)
- The company engaged in discussion with a number of the proponents at various times during the years. Two of these discussions resulted in the exclusion of two shareholders' proposals. (Miller TV ads; company split)
- The other two excluded proposals (malt liquor marketing; global warnings) were granted no action letters by the SEC.

56. What are the procedures for Director nominations. How were the nominees selected? Is shareholder input sought in the nomination process?

- Shareholders are always free to submit nominations.
- Stockholders wishing to suggest candidates to the Nominating Committee for consideration as Directors may submit names and biographical data to the Secretary of the Company. The Company's By-Laws prescribe the procedures a stockholder must follow. To nominate a candidate for Director at the 1995 Annual Meeting, notice of the nomination must be received by the secretary of the company at the New York office between October 8 and November 7, 1994. The notice must include the name, address, occupation and shares held by the nominee.

2022990891

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

57. On average, on how many Boards of Directors do the company's independent Directors serve? What is the highest number of Directorships held by a company Director?

- On average, the number is 2.
- Highest number of Directorships held by a company Director is 5, (H. Brown).

58. How much stock do the Directors own and, generally speaking, is it an important percentage of their respective portfolios?

(U)
- Number of shares owned by Directors can be found on page 8 of Proxy.
- We have no way of knowing whether this is an important percentage of their respective portfolios.

2022990892

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

ENVIRONMENT *Rev. 3/23*

CERES Principles

1. Why hasn't PM Companies signed the CERES (Valdez) Principles?
   - Our statement on Environmental Principles, published in 1992, is substantially similar to the CERES Principles in both word and deed.
   - Most major corporations won't sign the CERES Principles.
   - Requires companies to be held to vaguely defined principles.
   - Involves burdensome reporting and auditing; increased cost.

Sustainable Development - ICC

2. In 1991 the International Chamber of Commerce (ICC) established a business charter for sustainable development. The charter outlines 16 principles that ensures a balance between economic growth and environmental protection. To date, over 700 corporations around the world have formally supported ICC's charter for sustainable development. Why has PM not yet supported Sustainable Development?
   - Agree with the general theme of Sustainable Development.
   - Each company must design and abide by its own principles driven by the nature and scope of its operations.

EPA Voluntary Programs

3. The Environmental Protection Agency has initiated a number of voluntary programs for improving the environment. Programs such as 33/50, which allows industry to reduce the amount of toxic chemicals it uses in manufacturing, and green lights, which encourages companies to switch to efficient lighting fixtures. Why hasn't PM joined these programs?
   - We support the goals of both programs.
   - Each company must design and abide by its own principles driven by the nature and scope of its operations.

2022990893

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Council on Economic Priorities

4. The Council on Economic Priorities (CEP) has given PM its lowest possible environmental rating and urged customers not to purchase any PM products. What are we doing about this?

   - The CEP (Alice Tepper Marlin, Director) is a non-profit group in New York that monitors social policies of large corporations.
   - CEP sponsors an annual book, "Shopping For a Better World," which led to an inaccurate *Daily News* article accusing PM of doing business in South Africa.
   - We contend that CEP's published reports are based on insufficient research and inadequate facts.

Clean Water Act Reauthorization

5. Is there a need for Congress to pass legislation to reauthorize the Clean Water Act?

   - We have been a supporter of the Clean Water Act initiatives over the past 2 decades, and we continue to support this important program.
   - We have formed an intra-company task force to work on the reauthorization of the Clean Water Act to ensure that Congress passes legislation which will guarantee an adequate supply of clean water in the least bureaucratic, but most cost-efficient manner for water users.

2022990894

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Beer

Forced Deposits

6. Are you for forced deposits on beer containers?
   - Miller opposes mandatory forced deposits as they unfairly single out beverage containers while ignoring 80% of litter and 95% of the solid waste.
   - Increases the price of beer and soft drinks.
   - Consumers buying less or traveling to nearby non-deposit states to purchase beverages.
   - Beverage containers only comprise about 6% of the municipal solid waste stream.
   - Mandatory forced deposits remove valuable material from curbside recycling programs. In 1992, recovery rates for aluminum beverage containers was 68% and for glass containers 33%.
   - At last count, there were over 4,000 curbside recycling programs in the US.
   - According to Franklin Associates, of the 5 states with critical landfill shortages, 3 are bottle bill states (New York, Connecticut, and Massachusetts).

Recycling

7. What does Miller do with its paper waste?
   - Miller paperboard is either recycled or reused.

8. Is Miller's packaging recyclable?
   - All glass and aluminum containers and paperboard carriers can be recycled through curbside programs or voluntary drop-off centers.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

9. Does Miller use recycled material in its packaging?

- Miller's aluminum cans are made from nearly 100% recycled materials, 50% of which is post-consumer material.
- Miller's bottles are made from approximately 30% post-consumer recycled material.

Source Reduction

10. What has Miller done by way of source reduction?

- Since 1961, the amount of aluminum used in our cans has been reduced by about 45%.
- Since 1986, reduced the weight of our glass bottles by more than 20%.
- Since 1989, reduced shipments to landfills by 72%.
- By 1995, expect to completely discontinue sending anything from our breweries to landfills.

Nature Conservancy Program

11. What is Miller doing with regard to the Nature Conservancy Program?

- Miller's contribution to the Nature Conservancy was a one-time donation.
- Our agreement with the organization expired in 1993.
- There are no plans for further support.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food

12. What is KGFI's position regarding cleaning up the environment? What steps have been taken to reduce package waste, industrial pollutants, etc.?

- In the last decade, glass usage has been reduced by more than 30,000 tons.
- Over the last 3 years, we have reduced the overall weight of packaging materials in our European businesses by some 20,000 tons, at a savings to the company of over $30 million.
  - Glass packaging reduction alone over the 3-year period amounted to 5,000 tons.
  - Paper accounted for a reduction of 2,200 tons over the time period.
- In our roast and ground coffees, the inner packaging for vacuum-packed coffee consists of newly-developed synthetic materials with a thin aluminum film. This film has enabled us to reduce aluminum content from 465 tons to 2 tons annually.

Resource Conservation Reauthorization Act (RCRA)

13. What is KGF's position on RCRA, the federal solid waste legislation?

- KGF will continue efforts to assure that food safety concerns are taken into account in any federal solid waste legislation.
- Market driven recycling and source reduction are working and should be allowed to continue without mandated "rates and dates" set by legislation.

2022990897

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

"Green Marketing" Guides

14. What is KGF's position on environmental marketing claims?

- KGF joined in asking the FTC to issue environmental marketing guidelines, which the FTC did 2 years ago. These "green marketing" guides are a significant step to assure the dissemination of uniform and truthful labeling and advertising information to consumers.
- Still many conflicting state and local laws and regulations. A uniform national standard is needed to provide one set of rules to facilitate national marketing.

Solid Waste

15. What's the solution to the solid waste problem?

- Solving the problem takes a combination of waste management options working together:
  - Source Reduction
  - Recycling
  - Composting
  - Waste to Energy Incineration
  - Landfilling

16. What is KGF's contribution to the solid waste stream?

- 1.0%, by weight, of *packaging* in the solid waste stream.
- Since packaging is about a third of total solid waste, our contribution is 0.3% of total solid waste.

2022990898

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

17. What is KGF doing about our contribution to the solid waste stream?

- Over the last 10 years, we have eliminated over a billion pounds of packaging from the solid waste stream.
- We use a half billion pounds of recycled material annually.
- We were the first food company to use recycled plastics in a food container when we introduced a 24 oz. pourable dressing container containing 25% recycled PET.
- We support packaging research.
- The brochure, "Working Together to Reduce Solid Waste," is available.

18. What has Oscar Mayer done to reduce the amount of solid waste associated with its packaging?

- Reduced the packaging of our Lunchables by 45%.
- Removed all the heavy metals used in inks associated with our packages.

Solid Waste/Packaging

19. Doesn't KGF/PM contribute a huge amount to the solid waste burden in the US? What is it doing to change this?

- Over the past few years we have reduced the amount of packaging used by our products.
- We have been pioneers in the use of recycled plastics, where it has been shown to be safe for food packaging.

2022990899

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Non-Recyclables

20. Why are so many products in non-recyclable plastic? Kool-Bursts? Capri-Sun? Shouldn't more things be in glass?

- The recyclability of the package is only one consideration. For many applications, glass is perfectly appropriate, but elsewhere it may prove to be too heavy or subject to breakage.
- Some plastics that are not commonly recycled today may be recycled in the future as the recycling infrastructure is developed.

21. Why doesn't KGF/PM use more recycled paper or plastic in its packages?

- For any products designed to be consumed by humans (such as food, beer and cigarettes), the packaging must meet strict purity standards.
- The opportunities for the use of recycled plastics for food packaging are very limited.
- Technology is not yet available that would ensure that recycled plastics of all types could be purified to the extent necessary to protect food safely.
- Recycled paperboard must meet adequate purity standards, and, must be strong enough to protect the product in all phases of transportation and distribution. (Wet, refrigerated and frozen environments can significantly weaken paper fibers, especially recycled paper fibers.)

2022990900

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

22. What are you doing to reduce KoolAid Koolbursts package or make it recyclable?

- The KoolAid Koolburst package is designed to protect the product.
- The plastic bottle is designed to be able to be recycled as plastic recycling grows.
- The plastic wrap is not extra packaging, but helps keep the product flavor.
- The paperboard holder is made from recycled material.

Package Waste Reduction

23. What is KGF Canada doing to reduce packaging waste?

- By the end of 1992, reduced the amount of packaging material used by 23% vs. 1988, surpassing National Packaging Protocol requirements set at 20%. (KGF Canada has converted its 500 and 750 ml. pourable salad dressing bottle from glass to PET.)
- A leading supporter of the "blue box" system, (home recycling at the municipal level supported by industry).
- Is taking a leadership role in the Grocery Products Manufacturers of Canada's proposed Canadian Industry Packaging Stewardship Initiative. Monies collected from the levies used to set up an infrastructure for collecting different materials, facilities for sorting collected packaging materials, and for research and development and commercialization of new environmental technologies.

2022990901

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Superfund

24. What is your position regarding the reauthorization of Superfund?

- PM supports the cleanup of toxic waste sites and believes that the Superfund approach to this costly task is generally the proper one.
- A reauthorization of Superfund must deal appropriately with the liability issue so that companies are not exposed to liability out of proportion to their involvement in any particular site.

Hazardous Waste

25. Does KGF have any involvement with EPA Superfund Cleanups of hazardous waste disposal sites?

- KGF and its subsidiaries are currently involved in 86 Superfund sites, some of which are still in investigation. The majority of these sites involve waste generated at facilities or businesses which have been sold and for which KGF retains an indemnity obligation.
- KGF is also completing its systematic upgrading and replacement of underground fuel and gasoline tanks. As part of that process we are completing the remediation of any spills or leaks on our existing plant locations.
- Our expected financial contribution to cleanup is small in relation to other affected companies. We do have several sites where we are among the ten largest contributors based on the preliminary allocation of liability.
- We have established reserves which we believe are adequate for our expected financial contribution, or have insurance to cover expected costs.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Hazardous Substance Accident Prevention

26. Does KGF have plans to prevent an oil or hazardous substance related accident which could affect a community?

- Food manufacturing does not manufacture toxic materials.
- Food manufacturing does not use or store hazardous materials in any significant quantity except for ammonia which is used in facility refrigeration systems, and for materials used for cleaning and disinfecting of plant processing equipment.
- KGF facilities have developed emergency plans appropriate for the type of facility.
- KGF facilities are taking part in community disaster planning programs designed to prevent or mitigate disasters.
- Additional planning and training for all KGF facilities to be completed this year as part of the KGF Environmental Improvement Project.

Environmental Laws Violations

27. Does KGF have any pending cases alleging violations of one or more environmental laws?

- For 1993, there exists one minor administrative complaint of noncompliance at an Oscar Mayer facility in Madison, Wisconsin. The US EPA is seeking $66,000, which is below the SEC reporting requirement of $100,000.

2022990903

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Environmental Compliance

28. What is KGF doing to improve its Environmental compliance status?

- KGF recognized in 1991 that it needed to improve its compliance programming due to the combination of unprecedented changes in personnel, product and facility changes, new and changed regulatory requirements as well as public expectation of environmental compliance.
- A task force of internal technical and legal personnel reviewed our compliance programs and made recommendations to senior management.
- Those recommendations were incorporated in 1994 business and individual performance.
- PM Companies also conducted a compliance assessment.

Right-to-Know/Emergency Planning

29. Will PM/KGF share with concerned citizens a list of all chemicals used in its facilities?

- PM/KGF complies with all applicable laws regarding the disclosure of hazardous substances used in its facilities.
- We have elaborate spill control plans and evacuation procedures in place in the event of a problem with those materials.
- Our first emphasis is to prevent the inappropriate release of any substance to the environment.
- Our efforts are focused on proper training of employees and maintenance of equipment to make certain that unauthorized releases do not occur.

20229090904

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Indoor Air Pollution

30. What does KGF/PM do about indoor air pollution at its facilities? Smoking?

- Each facility undertakes to make certain that adequate ventilation is provided so that the health or comfort of employees is not adversely affected.

Clean Air

31. How is KGF/PM complying with the Clean Air Act?

- Our facilities and transport fleets have undertaken appropriate measures to comply with local air quality standards.

2022990905

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

EXECUTIVE COMPENSATION *Rev. 3/8*

Determination of Executive Compensation

1. How does PM determine and justify the level of executive compensation?
   - The Compensation Committee of PM establishes the components of compensation that will be used to compensate our executives. Each component has a different objective.
   - Base salary compensates the executive for performing their day to day responsibilities.
   - The annual bonus compensates the executive for superior achievements over the prior fiscal year.
   - The long-term bonus compensates the executive for achievement of long-range (3-year) goals.
   - The stock option plan links the executive directly to the shareholder, in that as the stock price increases they benefit similarly.
   - Only the base salary is considered fixed, all other components are variable and subject to company performance, attainment of pre-set targets, and individual performance.

2022990906

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Comments on Executive Compensation

2. How many of the top 5 executives will receive compensation greater than $1 million? Will the compensation paid to these executives be deductible under the newly enacted section 162(m) of the Omnibus Budget Reconciliation Act of 1993?

- For 1993, 4 of the top 6 executives earned greater than $1 million.
- For 1994, it is anticipated that these same 4 executives will again earn more than $1 million. The compensation for these 4 executives, which is in excess of $1 million will be deductible, for Federal Income Tax purposes.
- The Compensation Committee established objective performance goals for Annual Incentive bonuses for 1994. As a result, 1994 incentive awards will be deductible for Federal Income Tax purposes.

Annual Incentive Plan

3. Why did the Compensation Committee establish objective performance goals for the 1994 Incentive Plan? What are the performance goals that were established by the Committee, and who is covered by the new Plan?

- The Compensation Committee established objective performance goals in order to more directly link senior executives' pay to pre-specified goals. As such, compensation paid under the 1994 annual incentive plan would also qualify as "performance based" under the new tax law and therefore be deductible for Federal Income tax purposes.
- Growth in EPS was selected as the most appropriate measure of the senior executive's effectiveness in managing the Company's portfolio of businesses. Incentive payments will now be directly linked to the achievement of pre-determined EPS goals as stated in the Company's five year Strategic Plan.

2022990907

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

- For 1994, only the top 6 highest paid officers will be covered under the plan.

Long Term Incentive Plan

4. A Long Term plan concluded and paid out in 1992. Is there a new program? What is the basis for the award determination? Does it relate to corporate performance?

- A new long-term plan is in place that runs for three years, 1993-1995.
- Awards for operating company executives will be based on corporate and their operating company's performance results.
- Executives from the corporate group will have their awards based solely on corporate results.
- Awards will be determined at the end of the performance period by the Compensation Committee based on a subjective evaluation of the success in achieving financial objectives and strategic initiatives by PM and each operating company.
- Financial objectives for each operating company include: income from operations, cash flow, earnings per share, pre-tax income.
- Strategic objectives for each operating company include:
  - maximized productivity
  - comprehensive senior management succession planning
  - optimization of product price/values
- The specific financial objectives and strategic initiatives were selected because the successful achievement of these factors generally results in an increase in stock price.

2022990908

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Philip Morris Stock Option Plan

5. Does the PM Stock Option Plan meet the performance based requirements established by the Omnibus Budget Reconciliation Act of 1993?

- Yes.
- The Stock Option Plan must be performance based. The PM stock option program provides for shares to be issued at fair market value or at a premium to the market value, so an option is inherently performance based.
- The second criteria for stock options is that the plan governing option distribution must also specify the maximum number of shares that can be awarded to an executive. The PM Stock Option Plan provision which limits the number of shares which may be granted under the plan satisfies this requirement.

FASB's Efforts to Change Accounting for Equity-Based Compensation

6. Now that FASB has announced that it will require a charge to earnings for stock options (assuming final approval), will PM discontinue granting options?

- No. We continue to believe that stock options are an effective means of:
  - motivating management
  - encouraging ownership of PM shares
  - aligning shareholder and management interests
- Based on the financial impact of the charge, and the responses of other Fortune 500 companies, we may modify our program.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Executive Compensation to Stock Performance

7. The shareholders sustained a significant loss of value when the stock plummeted from the mid-80's to the current level of about $60. Have the executives' compensation been similarly affected?

- Yes, they have.
- Approximately 2/3 of the compensation paid to the executive officer group is variable incentive compensation, comprised of stock-based and cash incentives, both long-term and short-term.
- In 1993, a decision was made to implement a strategic plan that would significantly improve the positioning of the company for long term success and profitability. For the past year, financial results have been below plan, and the executives' annual incentive awards have been reduced.
- Their stock options have also lost value.

2022990910

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Impact of Stock Price Change on Option Award Size

8. The current price of PM stock is significantly below the high value of 1993. Yet, the proxy shows that the executives received more shares of stock than last year, and the total amount distributed to stock-eligible employees is much higher as well. What is the reason for this?

- The size of stock option grants, expressed in dollars, is based on competitive practice and is targeted at the 55th percentile of our peer group.
- The dollar amount of the stock option grant represents an investment opportunity. Increases in stock price result in a fewer number of shares being granted and decreases in stock price result in more shares being granted.
- Ignoring other factors, to provide a consistent investment opportunity, a decrease in stock price would result in a grant of more shares.
- Although the company's competitive pay objective has not changed, the 55th percentile has increased somewhat from prior year. This increase resulted in more shares being granted to executives.
- On a year-to-year basis, the total investment value, determined by the Black-Scholes model decreased, even though the number of options granted increased.

As an example:

	1992 Options	1992 Grant Date Present Value	1993 Options	1993 Grant Date Present Value
Michael Miles	75,000	1,611,750	125,000	1,153,750
William Murray	54,870	1,179,156	92,350	852,391
Geoffrey Bible	36,400	782,236	91,720	846,576

2022990911

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Use of Change-In-Control Agreements

9. Why does PM continue to need change-in-control agreements for senior executives?

- Change-in-control severance and employment arrangements help recruit and retain key employees by assuring satisfaction of compensation and benefits expectations and requiring fair treatment in the event of a change-in-control.
- Help reduce the personal uncertainty and anxiety arising from a takeover situation.
- Help assure full and impartial consideration of takeover proposals by management.

Compensation Committee Retaining an Outside Consultant

10. Does the Compensation Committee retain a separate independent compensation consultant and if not, why?

- The Compensation Committee has not retained outside compensation consultants.
- The Committee has had access to and reviewed compensation survey data and comparisons conducted by independent consultants.
- Management recommendations and presentations to the Compensation Committee are previewed with independent consultants who in turn advise the company on the appropriateness and reasonableness of these actions or observations.

2022290912

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Executive Stock Ownership Requirements

11. What is PM's position on forcing top management employees to hold and own shares after exercising options?

- We cannot require and *force* our senior executives to purchase and hold shares, or enforce a certain level of ownership.
- We strongly encourage ownership of company stock.
- We believe that there is a *reasonable* minimum range within which our senior executives ought to own shares and make the corresponding financial commitment and sacrifice.

2023290913

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

HEALTH

Rev. 3/24

Food

1. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?
   - We produce food products of the highest quality, safety, hygiene, and nutrition.

Children's Advertising

2. Don't you, as a company, have an obligation to educate children about proper nutrition?
   - Provided more than $6 million to organizations that conduct nutrition programs or provide nutrition information since 1987.
   - There has to be a concerted effort among parents, educators and the public and private sectors.

Tobacco

Environmental Tobacco Smoke

3. Is smoking a health risk?
   - Smoking is a risk factor for certain human diseases.
   - Consumers are aware of these potential risks.
   - Warning labels have been on cigarette packs for more than 25 years.

2022990914

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

ETS

4. What is PM's response to the claim by the EPA that exposure to ETS increases the risk of respiratory problems in children?

   - A growing number of complaints of childhood respiratory problems are associated with poor indoor air quality in schools and day-care centers where ETS is not a factor.
   - Scientific studies have not shown that ETS is responsible for respiratory diseases in children.
   - Other factors, such as socioeconomic conditions, exposure to contagion and indoor pollutants have all been linked to respiratory illness in children.
   - Studies EPA has relied on are inconclusive and inconsistent with at least 25 other independent studies that report no statistically significant association between respiratory disease in children and ETS.

5. The EPA report stated that ETS has been found to cause cancer in non-smokers and respiratory illness in children. Under the circumstances, how can PM USA oppose smoking bans?

   - The EPA report is seriously flawed, and its conclusions are not justified by the facts.
   - We joined other members of the tobacco industry in filing suit against the EPA to overturn the findings of the report.
   - Indoor air quality needs improvement. If ventilation system is inadequate or poorly maintained, banning smoking will not prevent poor indoor air quality.

2022990915

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Surgeon General's Report

6. How does PM respond to the Surgeon General's report on smoking and youth?

(N)

- We agree with the Surgeon General that minors shouldn't smoke. We support strict enforcement of state minimum age laws for the purchase of cigarettes.
- We agree with the acknowledgment of the key role played by parental and peer influence in the initiation of underage smoking.
- We disagree that advertising plays a significant role in inducing minors to smoke. Numerous research studies indicate that cigarette advertising has little or no ability to induce anyone to begin smoking.
- We advertise to promote brand loyalty and to encourage adults who smoke competing brands to switch to ours.
- We market our tobacco products to adult smokers only.

2022990916

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

HUMAN RESOURCES *Rev. 3/24*

Affirmative Action and Diversity

1. What has been done about the harassment situation at Fulton Brewery / Miller Brewing Company?
   - Allegations of harassment at Fulton are the subject of litigation; so we cannot comment.
   - PM has a corporation-wide policy prohibiting any form of harassment.

2. There have been terminations of certain black managers at PM, such as Allene Roberts. What is being done to ensure a fair and impartial hearing for these individuals?
   - Each PM employee has their internal chain of command in each unit to voice concerns about fairness.
   - Human Resource staff person, up to and including the senior vice president of Human Resources, as another channel to receive a fair and impartial hearing.
   - We cannot comment on any particular termination case.

3. There is a contracting work force at PM to meet future business objectives. What is being done to ensure the affirmative action progress obtained thus far is not wiped out with one layoff?
   - Each business unit head is responsible to monitor and track employment demographics at the time of any reduction in force.
   - Affirmative Action and Diversity Committee of the Board formally meets twice a year to review trends and ensure diversity progress.

2022990917

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

4. What has been PM's affirmative action and diversity performance?

(U)
- 1 of every 4 PM employees is a person of color.
- Nearly 1 of every 3 PM employees is a woman.
- Professional/managerial employees - 16% are people of color and 28% are women.
- Vice presidents (i.e., salary grade 18+) - 8% are people of color and 10% are women.
- Board of Director representation - 10% are people of color and 10% are women.
- Minority Vendor Program - in 1992 we spent $315 million with minority vendors, suppliers, or contractors. Since the program's inception, more than $2.5 billion have been spent with minority-owned businesses.
- Nearly 1 of every 5 of our philanthropic contributions dollars supports diversity-related projects and programs.

Sexual Orientation

5. What is PM's policy with regard to the sexual orientation of its employees?

- We do not discriminate on the basis of sexual orientation.

Workplace Monitoring

6. What is PM's policy with regard to monitoring employees in the workplace?

- If employees are alerted that telephone messages, computer files, etc., may be monitored by their employer, there should be no reason to restrict such behavior.

2022990918

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Management Development

7. Please explain the management development initiatives in place in PM to provide international and cross industry experience to employees to develop successors to top management.

   - Succession planning process.
   - Management development and training initiatives used to match talent with opportunities to assist employees in skill development.

8. What are the tangible initiatives PM is undertaking to reduce costs?

   - 8,000 employee positions have been eliminated (or consolidated with others) in the past 2 years.
   - 32 plants have been closed since 1989, and more are being studied.
   - Personnel reduction involving approximately 14,000 positions (8% of worldwide workforce) - announced in November 1993.
   - Total Quality Management is in place across the corporation.

9. How does the company plan to attract and retain top talent in light of the negative publicity surrounding tobacco?

   - No problems attracting and retaining top talent.
   - Environment that fosters the team approach and employees are encouraged to step forward and take risks, think creatively, voice their opinions, and strive to make a difference. This gives workers a sense of empowerment.
   - Management development initiatives to enhance an employee's career growth and increase their knowledge and skill base.
   - Compensation and benefit programs are competitive.

2023290919

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Business Efficiency

10. What changes are being made in the businesses to increase the speed and effectiveness of the organization?

- Substantial reduction in worldwide work force.
  - — 32 plants closed since 1989
  - — 8,000 employee positions eliminated (or consolidated with others).
- Increased productivity through streamlined organizational layers, improved synergies between businesses, reduced overhead, and other factors.
- Sales per employee increased 25.4% and profit per employee increased 26% since 1989.
- Organizational synergies and management efficiencies:
  - — Kraft and Jacob Suchard in Europe
  - — Food and tobacco in Latin America
  - — Oscar Mayer and Kraft USA
  - — Frozen and Lender's into GF USA.

2022990920

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Succession Planning

11. What is PM doing to ensure that it will have a future generation of business leaders who have the experience and perspectives to compete in a global economy?

- Succession planning process.
- Moving people between businesses. For example, 192 of our successors work in totally different businesses from a year ago (1992-1993), up 200% from 2 years ago (i.e., John Bowlin to Miller Brewing).
- Performance Management System.
- Tightening appraisal process.
- Developing a "Core Curriculum" of training focused on critical skills, business issues, and building a shared culture and values.
- Through a mobility survey, we identify employees willing to move.

12. Many corporations are bringing in outsiders to inject new ideas into their corporations. Does PM have plans to do the same — particularly in the domestic cigarette area? If so, why?

- Our corporate strategy is first to develop and promote our own employees, and second to selectively bring in new talent from the outside.
- Approximately 85% of positions are filled from within.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Work and Family Balance

13. What is PM doing to support work and family balance issues?

- Most of our operating companies provide assistance including child care referral, on-site services, elder care referral, and flexible working hours.
- Through our funding of the American Business Collaboration, we have expanded availability of children services in the communities where our employees reside.

Retirement Benefits

14. Will the pension plan for existing retirees change?

(N)
- By law, pension benefits for existing retirees cannot be changed.

15. Will the medical benefits for retirees change?

(N)
- There are no current plans to change benefits for existing retirees.
- The company reserves the right to change or terminate the plan, in whole or in part at any time.

16. What is the financial condition of our US pension plans?

(N)
- The PM pension plans are well funded. In total, assets exceed projected benefit obligations by almost $1.5 billion.

17. What is the financial condition of our non-US plans?

(N)
- For funded plans, assets exceed projected benefit obligations by $113 million. For plans that are not funded, but liabilities are accrued, there is a deficit of $639 million.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

18. What has been the investment performance?

(N) ▪ In 1993, the PM Pension Fund earned 15.8%. This compares favorably with the pension fund performance of other major corporations. Over the last five years, the fund has earned 12.3%.

Workforce Reduction

19. In your effort to streamline operations and reduce expenses, were any open window or workforce reduction programs implemented in 1993? Were the cost-savings goals achieved and are additional programs planned for 1994? Could executive salaries have been reduced, so as to save some employees' jobs?

▪ To reduce expenses and promote efficiencies in both operations and management, reductions or early retirement programs were implemented.

Workforce Reduction/ Open Window	# of Employees	Long-Term Savings
Corporate	44	$3,200,000
PM USA	483	39,400,000
PMI	42	4,062,000
Miller	353	14,600,000
Total	922	$61,262,000

▪ There will be additional workforce reductions to the extent necessary to streamline operations.

▪ Salary structures will be frozen for this year.

▪ The Merit Increase Guidelines calibrated to the rate of inflation.

▪ Annual cost savings from workforce reductions much greater than reducing executives' salaries.

2022290923

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Health Care Reform

20. The new Clinton Health Plan has been released, and will now be discussed and debated in Congress, pending modification. How will this plan affect PM, benefits coverage for employees, and the associated expenses?

- Aggressively addressing the issue of health care cost containment.
- Clinton's standard benefit package would require three plans: fee for service plan, point of service plan, and an HMO.
- PM managed care plans provide similar health-care coverage to that required by the proposed federal plan, as well as access to existing networks.

2022990924

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Family and Medical Leave

21. "The Family and Medical Leave Act of 1993" gives employees up to 12 weeks of unpaid leave for the birth or adoption of a child, and the serious illness of the employee, family member, or parent. Health benefits are continued during the period of absence on the same terms as for other active employees. What is the company's position on this new legislation?

    - PM policy gave employees up to 5 months of unpaid parental leave and up to 6 months of unpaid medical leave at the discretion of management. The policy will continue to provide the same benefits except that the first 12 weeks will not be subject to management discretion.
    - The legislation will not result in excessive costs, since the leave time is unpaid. The company will incur costs for the continuation of benefits during the leave.
    - These policies increase our chances of retaining the type of personnel that PM seeks to hire because it provides a way for them to attend to family needs without severing their ties to the company.

22. Has this statute disrupted PM operations?

    - No.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco

PM USA restructuring information found in "Restructuring" section.

23. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?

(U)
- Since 1991, PM USA workforce has been reduced by more than 15%.
- As part of PM USA's ongoing restructuring, our PM USA workforce in Richmond will be reduced by 900 by June, 1994.
- [More TK, pending the conclusion of union negotiations.]

24. How can you justify layoffs and plant closings while you're adding cigarette production volume through plant acquisitions overseas?
- Domestic downsizing and overseas acquisitions are 2 separate issues.
- Overseas acquisitions, provide factories, local brands that appeal to local tastes, and immediate access to key local distribution systems.

25. What is the status of the Cabarrus expansion?

(U)
- In 1994 and 1995 we will add new machines and substantially increase our production capacity.
- Additional production will come on line as called for to meet demand.

2022990926

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

26. Isn't it inconsistent to be making workforce reductions in Richmond while expanding Cabarrus? Why not just put a hold on Cabarrus and pick up any needed production in Richmond?

(U)
- We are consolidating manufacturing facilities over the next 2 years.
- In the competitive and rapidly changing business we are in, we simply have to focus on lowering our cost per unit. On a per unit basis, we can make cigarettes most efficiently at lowest cost at out most modern facility - Cabarrus.

Corporate Headquarters

27. Given the legislative climate in New York, does PM have plans to move corporate and/or PM USA headquarters elsewhere?
- Many legislators in the state and city appreciate our presence, both as an economic contributor and a supporter of cultural and community programs.
- We did conduct a feasibility study of moving PM USA headquarters to Richmond. We determined that the potential benefits of such a move would be more than offset by the loss of many experienced employees, and we decided not to pursue this matter further.

Food

Kraft restructuring information found in "Restructuring" section.

Beer

Fulton closing information found in "Restructuring" section.

2022990927

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food

Nutrition Labeling & Education Act

1. How will NLEA affect refrigerated pasta and sauces labeling?
   - All DiGiorno labels will be changed to be in compliance with the new NLEA regulations.

2. What will be the impact of NLEA regulations on AAGC's healthy products?
   - Preliminary indications are that NLEA will have very limited impact on AAGC's frozen businesses.
   - Most products already meet all federal labeling requirements for "Light" products and minor reformulations are expected in only a few items.

3. When will Oscar Mayer nutritionally label its products?
   - All products will carry the nutritional information by July 1994.
   - Oscar Mayer supported the Department of Agriculture's initiative for the detailed nutritional labeling of meat and poultry products.

4. What will the impact of NLEA be on KGF Canada?
   - On finished food products being shipped to the US, a label that complies with NLEA format will be required.
   - US products must meet Canadian regulations under the Free Trade Agreement.
   - Basic requirement is to meet the regulations of the country of destination.

2022990928

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

5. Why doesn't (product) have the new label on it now?

(U)
- FDA products produced on or after May 8, 1994 must comply with NLEA.
- USDA products must comply by July 1994.
- Products will feature new labels as supplies of existing labels are depleted.
- After May 8, there will continue to be products in the market that were packed prior to the compliance date.

6. When did KGF products with the new label begin to appear in stores?

- Third quarter of 1993.

7. Now that (product) is "mislabeled" according to the new regulations, doesn't that mean you are deceiving consumers?

- No. New regulations are not based on any finding of deception – they are based on new standards and definitions.
- Products comply fully with current regulations and will comply with the new regulations as well.

8. What can consumers expect now that the new labeling requirements are out?

- Almost every food product will have a nutrition panel.
- Product labels will include additional nutrition information to help consumers determine the nutritional content of foods for comparative purposes and planning diets that incorporate a variety of foods.

2022990929

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

9. What will KGF's role be in educating consumers about the new label?

- Product 800 numbers.
- "A Matter of Balance," a nutrition education program:
  - consumer brochures
  - funding for an 800 number at the American Dietetic Association; and
  - grant to ADA to provide extensive outreach to media, the most frequent source consumers use for nutrition information.

10. Do you anticipate that there will be pressure to strengthen the EC Directive on labeling for more disclosure based on new labeling requirements in the US?

- Labeling is a balancing act between the consumer's right to information and the practical aspect of providing that information.
- We support any reasonable and practical proposals which reflect this balance.
- There are a number of pending labeling initiatives in the EC, made more complex by efforts to harmonize 12 different sets of labeling and language requirements.

State Dairy Product Labeling Regulations

11. How does KGF/PM respond to local dairy labeling laws?

- We comply with all applicable laws.
- Consumers would be better served by uniform federal labeling laws.
- Compliance with local laws tends to increase costs and confuse consumers.

2022990930

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Product "Downsizing"

12. Isn't it misleading to consumers when you reduce the amount of product in your packages, and don't call attention to that fact through special labels?

- No. All labels disclose the net weight of ingredients as required by law.
- Generally note that the package is a "new size" on the label.
- "Unit price" information available at the point of purchase.
- In some cases, the weight of the product is reduced, while the "yield" remains the same:
  - coffee, due to new roasting technologies; and
  - beverage mixes, due to new sweetener.
- In some cases, a decrease in weight not only does not affect yield, but represents a quality benefit for the consumer:
  - Beverage mixes (Kool-Aid, Country Time, Tang) recently changed sweeteners from sucrose to a sucrose/fructose blend, resulting in lower sugar content.

Tobacco

PMI

13. Are health warnings in place on all PMI packs now?

- Yes. They are in place on all packs where allowed by the government.

  [Note: Exception is Morocco, whose government has not yet adopted a warning of its own and objects to our using the US warning. We hope to resolve this.]

2022290931

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

LEGISLATION *Rev. 3/24*

Tort Reform

1. Will Congress pass product liability reform legislation?
   - Congress has considered uniform product liability legislation without passing a bill for over 10 years. While it's expected they will consider such legislation again in 1994, the proposal is not expected to pass.
   - Prospects for reasonable, balanced tort reform legislation are much better at the state level.

2. What is PM's position on tort reform, and how are we trying to impact legislative decisions?
   - Unpredictability of the US legal system increases consumer costs, stifles competition, and inhibits innovation.
   - We are participating in national and state tort reform coalitions, such as the American Tort Reform Coalition.

3. Why does PM oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?
   - Existing court rules generally grant trial judges discretion to keep information confidential. This allows protection of trade secrets, personal medical records, or other information produced during the discovery process and not introduced at trial which could be taken out of context.
   - Plaintiff's bar hasn't shown that trial judges are abusing this discretion.

2022990932

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

FTC/Commercial Advertising

4. Does PM support efforts to pass legislation that would reauthorize the Federal Trade Commission (FTC) and permit it to use its "unfairness" authority against commercial advertising?

   - We support efforts in Congress to reauthorize the FTC, which regulates national advertising.
   - However, the FTC's current statutory unfairness authority is vague, highly subjective, and subject to abuse.

Deregulation/Risk Assessment

5. Is PM a strong supporter of across-the-board deregulatory initiatives?

   - Impossible to make a blanket company statement concerning regulatory matters, as each issue and its impact on the corporation is handled on a case-by-case basis.
   - We support a requirement that federal agencies defer making regulations based on risk assessments until action is taken to ensure that they are based on sound science.

Packaging Legislation

6. What is the PM position on package recycling legislation?

   - PM supports recycling as one solid waste management technique to help solve the solid waste problem.
   - Limits to the amount that packaging can be reduced and still maintain the proper strength to protect the product.
   - We do not support legislation that requires packaging changes without regard to food safety concerns.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

7. Do we anticipate more "rates and dates" proposals for mandated recycling in 1994?

(N)
- Yes, environmentalists continue to press for the adoption of packaging legislation.
- In 1994, we expect that 15 to 20 states will consider legislation which we would seek to restrict or ban the use of food packaging.
- The most prevalent packaging legislation ("rates and dates" proposals) would require packaging to meet one of four options by certain date:
  - recycled content
  - reuse/refill
  - recycling rate
  - source reduction
- Packaging which does not comply with one of these requirements would be banned in that state.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

8. What other kinds of solid waste legislation can we expect in 1994?

(N)
- Expansion of bottle deposit legislation.
- In states with no bottle deposit legislation, bills have been introduced to levy deposits on beverage containers.
- In states with existing bottle deposit legislation, efforts are underway to expand the application to **all** beverages except milk.
- States see bottle deposits as a way to raise funds by claiming all or a portion of the escheat.
- Challenges on expanded bottle deposit legislation will occur in Massachusetts, Iowa, Michigan and Minnesota.
- Advance disposal fee (ADF) legislation is expected to be proposed in over 10 states in 1994. (Patterned after Florida's ADF law, bills tie the application of an ADF, usually one or two cents per product, to a recycling or recycled content requirement. Materials which meet the requirements are not subject to the ADF.)

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Beer

Bottle Deposit Legislation

9. Why does PM oppose bottle deposit legislation?

- Bottle deposits are an economically inefficient means of dealing with solid waste, placing an unfair burden on certain packaging types while doing little to reduce overall solid waste.
- Solid waste should be managed using a cost-effective and non-discriminatory system integrating source reduction, recycling, energy recovery, and land disposal as necessary.

Advertising Warning Legislation

10. Could you detail your opposition to legislation which would mandate health warnings on alcohol advertising?

- Warning messages do not reduce alcohol abuse among any segment of the population [numerous studies].
- These proposals divert attention and resources from other effective programs.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food

FDA Enforcement

11. What is KGF's position on the legislation that would give additional enforcement authority to the FDA over the food industry?

- FDA's existing powers and enforcement mechanisms – including the threat of adverse publicity, judicially-enforced sanctions, and strict criminal liability – can be most effective in ensuring industry compliance.
- Strong leadership, aggressive risk-based enforcement, and efficient management of resources are the keys to an effective FDA.

FDA User Fees

12. Does KGF believe food industry user fees are a proper way to help fund FDA operations?

- FDA regulates industries which comprise nearly 25% of GNP.
- More realistic budgeting and a greater federal funding commitment, not ill-conceived user fee schemes, are needed to improve the agency's operations.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food Safety

13. What is KGF's position of "food safety" legislation that seeks to ban or severely limit the use of pesticides in the production of food?

- KGF operates in compliance with all applicable laws and regulations governing public health and safety.
- Zero-tolerance approach of the "Delaney Clause" is based on antiquated notions of food safety, given modern scientific capabilities that can detect chemicals at very low levels that may pose only a negligible public health risk or no risk at all.
- Legislative efforts to resolve the problems created by the Delaney Clause should be guided by modern scientific and risk assessment principles, and should allow the FDA to approve safe food ingredients and the EPA to set pesticide tolerances based on a risk standard where both the economic and health benefits of pesticide use are considered.

Food Nutrition Advertising

14. What is KGF's position on food advertising in light of the new rules that regulate nutritional information that can be placed on food labels?

- Harmonization of the FTC's approach to food advertising with USDA and FDA food labeling regulations is the correct policy to pursue.
- FTC has broad statutory authority to prohibit false or misleading advertising.
- Important differences between food labeling and advertising must be recognized, and the FTC agrees with our position.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Diet Supplement Legislation

15. Why does KGF oppose legislation that would require the FDA to subject diet supplements to regulations far less stringent than that applied to foods?

- KGF believes in a level playing field among competitors, and this legislation would not accomplish this goal.
- Dietary supplements should be regulated in a manner consistent with foods under the NLEA.

Downsizing or "Packaging Shorting"

16. What is "downsizing" legislation, and what is PM's position on such legislation?

- Downsizing legislation would require manufacturers to place a notice on a package or shelf if the contents of a product have been reduced but the package has remained the same.
- PM believes that grocery products are accurately labeled as to weight, serving size, and price, and that downsizing legislation is unnecessary.

1995 Farm Bill

17. What is the outlook for the dairy program in the 1995 Farm Bill?

- Too early to tell what sort of changes will be made in the 1995 legislation.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco

Leaf

18. The new US leaf law is being criticized as going against the spirit of GATT. Why did PM support this initiative?

    - This was a grower-driven initiative. The American tobacco farmers have been under strong economic pressures in recent years.

Ford Amendment

19. What would the impact on PM and the domestic tobacco industry be if the Ford Amendment ("domestic content" legislation) is determined to be GATT illegal?

    - The industry will develop an alternative strategy to bring long term stability to tobacco production in the US.
    - In the near term, the US Department of Agriculture concluded that the domestic purchase requirements will result in domestic manufacturers using about 188 million pounds of additional pounds of US tobacco in 1994.

20. Why did PM USA support the recently enacted Ford Amendment, requiring US cigarette manufacturers to use at least 75% US grown tobacco in their products during each calendar year?

    - Senator Ford sought to bring stability to the domestic tobacco program and ensure the long-term viability of tobacco production in the US
    - Senator Ford's goals were consistent with our own.
    - PM USA is the largest purchaser of US tobacco.
    - Ford amendment strengthened our competitive position because PM has relied less on imported tobacco than our competitors.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

21. Do you agree with the US Department of Agriculture finding that the requirement that domestic cigarette manufacturers use at least 75% US leaf in the manufacture of cigarettes will result in a 9% decrease in US cigarette production for the next four years, resulting in a loss of about 11,000 jobs in domestic cigarette manufacturing plants?

- The USDA analysis relies on questionable assumptions.
- It assumes that cigarette manufacturers will shift production to foreign operations in an effort to continue their use of cheaper foreign tobacco leaf and that this will result in an eventual cutback in US leaf purchases.
- PM is the largest exporter of cigarettes in the US, responsible for well over half the cigarettes exported from the US.
- PM will not shift production offshore as a result of the Ford Amendment.

22. What is the impact of the 75% domestic leaf legislation on PM USA?

- We use a high percentage of domestic leaf in our brands.
- This legislation will insure an adequate supply of US grown leaf for the long term.

23. How will the new US leaf law affect PM's business internationally?

- Law affects US manufactured cigarettes.
- US leaf is the largest component of our cigarettes.

Tobacco Program

24. Why does PM USA support the Federal Tobacco Program?

- US flue-cured and burley tobacco is the backbone of our brands.
- Tobacco Support Program assures a stable supply of tobacco at relatively stable prices.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

FDA/CPSC Jurisdiction

25. What is the prospect for enactment of legislation to place tobacco products under the jurisdiction of the Food and Drug Administration (FDA) or Consumer Product Safety Commission (CPSC)? What impact would such legislation have on the cigarette industry.

- It is unlikely that tobacco products will be placed under the jurisdiction of the FDA or the CPSC.
- Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury Department, and the Agriculture Department already have extensive regulatory authority over various activities of the industry.

Synar Amendment

26. What is the status of HHS's (Health & Human Services) development of regulations designed to enforce the Synar Amendment? How will the Synar Amendment be enforced?

- Basic aim of the Synar Amendment is to prevent minors from illegally purchasing and using tobacco products.
- Final version of regulations now in place.
- [More information to come in first quarter 1994].

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Smoke Free Environment Act

27. How does PM respond to the "Smoke Free Environment Act" proposed by Representative Waxman?

(N)
- We view as another attempt by anti-smoking forces in Congress to introduce social engineering on a vast scale.
- Government mandated smoking bans deprive business owners of flexibility in running their establishments and freedom to determine their own smoking policies.
- The preferences of non-smokers and smokers can be accommodated through smoking and non-smoking sections.
- Majority of the public prefers accommodation.

California Uniform Tobacco Control Act

28. Is PM working with restaurant owners to promote a ballot initiative known as the California Uniform Tobacco Control Act?

(N)
- We are working with the restaurant, hotel and tourist industries in California to gather signatures in support of a ballot measure promoting accommodation of smokers and non-smokers.
- The earliest such a measure could appear on the ballot is November 1994.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

LITIGATION *Rev. 3/24*

Human Resources

1. What is the status of the human rights claims at Fulton Brewery that were covered by the New York Times?

   - Three major employment related cases involving the Fulton Brewery remain active. We do not feel that their claims have any merit.
   - In one of the cases, a judge ruled on February 7 that Miller may send African-American employees releases in connection with their severance offering. The harassment portion of the suit remains unresolved.

2. Are there any class action lawsuits that have been filed by any group as a result of the closing of the Fulton Brewery?

   - Yes. The suit was filed in the Northern District of New York, on December 28, 1993. Plaintiffs allege that they were subjected to racially derogatory pages, graffiti, and notes in the workplace. They seek compensatory and punitive damages, and other relief on behalf of all African-Americans employed or formerly employed at the Fulton Brewery. Also at issue was Miller's use of releases in connection with severance packages offered hourly workers as part of a plant closing agreement Miller negotiated with the International Association of Machinists.
   - On February 7, Judge Scullin announced that he will permit Miller to send African-American employees the releases in connection with the severance offering.
   - The harassment portion of the suit remains unresolved.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

3. What is the company's position on the lawsuit brought by former employees at the Kraft Decatur, Georgia plant?

- A few employees have filed a lawsuit challenging the company's severance pay practices. Those employees who have complied with the requirement that a release be signed have received their full severance benefits. Only a handful have failed to comply with the requirements. KGF has filed a motion to dismiss the case and is confident that there has been no violation of law. A decision is expected at any time.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Foodservice

4. We understand that a sexual harassment suit has been filed against Kraft Foodservice. What is the status?

   - We do not comment on pending employee lawsuits.

CONFIDENTIAL

- Katherine Burnett filed an employment discrimination lawsuit in federal court in Denver, Colorado, on January 3, 1994. The suit seeks monetary relief, including compensatory damages.
- The suit alleges that she was subjected to a sexual hostile work environment, and was denied a promotion after refusing to meet privately with the former district manager of the Denver Foodservice District. She also alleges that the company retaliated against her because she filed a charge of discrimination with the Equal Employment Opportunity Commission. There is also a Worker's Compensation issue.
- PM denies the existence of sexual hostile work environments, retaliation and unlawful denial of promotion.
- We made a settlement offer which encompasses the Worker's Compensation issue and are awaiting response from Burnett's counsel.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Kraft USA

5. Tulare murder suspect Guadeloupe Padilla sued Kraft USA claiming negligence. What is the status of the case?

- Plaintiff claims to have been injured at the Tulare North Kraft USA plant on January 27, 1993, due to negligence of Kraft USA. He was the employee of a contractor at the plant. Subsequently, in July of last year, it is alleged that he went to two different medical offices/facilities in that area and slew a doctor and a medical assistant.
- The suit was filed just prior to California's one year statute of limitations for the filing of personal injury actions passed. The suit has been served on PM Inc., but has not yet been served on Kraft USA.
- Once the proper parties have been identified, and made a part of the suit, it is the intention of KGF to fully defend itself.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

PMMC

6. In the later portion of 1992 you terminated Allene Roberts, a black woman who had 25 years with the company, building successfully a good reputation for PM with minority constituencies all over the country. We understand that she was asked to leave and was escorted from the building. Is this an example of the company's commitment to diversity for long-term minority employees?

CONFIDENTIAL

- (Allene Roberts was a Manager of Public Programs in the Corporate Affairs Department and a 25-year employee. She was terminated in November 1992. In December, she sued the company alleging race and sex discrimination and defamation of character).
- No. This matter relates only to one former employee, Mrs. Roberts, and in no way affects PM's total commitment to diversity within its workplace.
- Regrettably, Mrs. Roberts was let go after a general audit of her department which focused partially on the activities and practices of the people in that department. Questions were raised about her activities and practices. Specifically, those questions related to violations of expenses and contracting policies to which all our employees, with 25 days or 25 years of tenure, must adhere.
- It was in consideration of her 25 years of dedicated service that she was given months to resolve the questions. In the end, Mrs. Roberts' positive accomplishments could not be permitted to offset apparent misconduct which was discovered in the audit and which was discussed with her in great detail before the action was taken.

(Cont'd)

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

- We are well aware that over the years while she worked for PM, Allene Roberts made many friends for this company. She did so by representing accurately to the community PM's commitment to social and economic justice. We hope that whatever the outcome of the litigation with Ms. Roberts, those friendships based on that commitment can endure.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Seinfeld v. Bailey

7. We have heard about Seinfeld v. Bailey. What is it, and what is its posture?

- On April 7, 1992, a shareholder derivative action styled Seinfeld v. Bailey, et. al. was filed in New York State Supreme Court, New York County, alleging that in September 1991, PM Companies Inc. ("PM"), a Virginia corporation, improperly awarded shares of restricted stock and stock options to the company's former chairman, Hamish Maxwell. The complaint alleges that the grants were unlawful and wasteful gifts of corporate assets which were not properly authorized by the Board.
- Subsequently, defendants moved to dismiss, asserting that because the grant occurred in January 1991 at a time when plaintiff was not a shareholder, plaintiff lacked standing to bring the action. Plaintiff's counsel later moved to intervene with a new plaintiff-shareholder. Defendants cross moved to oppose the intervention and have amended the original motion to dismiss by adding a second ground for dismissal, *forum non conveniens.*
- On December 9, 1992, the matter was submitted to Judge Peter Tom, who granted defendants cross motion and dismissed the action on April, 1993. Plaintiffs have appealed the dismissal. Oral argument on the appeal was taken in New York Supreme Court, Appellate Division, First Department on December 1, 1993. The Appellate Division rendered a unanimous decision in favor of PM on December 23, 1993.
- Plaintiffs have filed a motion for leave to appeal the decision to the New York Court of Appeals.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

In Re Philip Morris Securities Litigation

8. We have heard about In Re Philip Morris Securities Litigation. What is it, and what is its posture?

- On April 2, 1993, PM Companies Inc. and certain of its officers were named as defendants in the first of several purported shareholder class actions which were filed and later consolidated in the United States District Court for the Southern District of New York as In Re Philip Morris Securities Litigation.
- These lawsuits allege that the company violated federal securities laws by making false and misleading statements concerning the effects of discount cigarettes on the company's premium tobacco business in the period January 7 to April 2, 1993, the latter of these being the date upon which the company announced changes in its marketing and pricing strategies for both premium and discount brands.
- On September 10, defendants moved to dismiss the action and filed motions to stay discovery and consideration of class action certification pending the decision of the court on the Motion to Dismiss. The parties presented oral argument on October 22. On October 25, defendants' motions to stay were granted.
- The court heard oral arguments on the Motion to Dismiss on December 3. A decision is expected prior to March 1, 1994.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Legal/Regulatory

9. What is going on with the investigation being conducted by the US Attorney for the Eastern District of New York into allegations of industry misconduct?

   - This is a legal matter, and it is our policy not to comment on pending legal investigations.

Product Defects

10. Why does PM oppose legislation to limit the ability of trial courts to issue protective orders in litigation that keeps information about product defects or other public hazards away from the public?

    - Existing court rules grant trial judges the discretion to keep information confidential. This allows protection from public disclosure of trade secrets and personal medical records, or other confidential information produced during the discovery process and not introduced at trial which could be taken out of context.
    - The plaintiff's bar hasn't shown that trial judges are abusing this discretion, so other legislation is simply unnecessary.
    - In any event, Government agencies such as the FTC, FDA, and FCC have access to such information in order to protect the interests of the public.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Beer

Pabst

11. What is the result of the Pabst lawsuit against Miller Brewing Company and PM Companies Inc. over the Molson acquisition?

- The case was voluntarily withdrawn by Pabst in September confirming our earlier view that the case was without merit. No settlement monies were paid by Miller Brewing Company or PM Companies Inc.

Labatt

12. Why is Labatt suing Miller Brewing Company and Molson, and do you think they will be successful in winning the lawsuit?

- Labatt filed suit against both Miller Brewing Company and Molson for the use of the term "Ice Brewed" and "Ice Beer" in Miller's and Molson's ice beer advertising.
- We believe Labatt is trying to appropriate for itself a descriptive brewing term that has been in use for years. "Ice Beer" was developed by German brewers in the last century and a beer known as "Eisbock" has been produced in Germany as well as Ontario.
- We have filed an answer denying all of Labatt's claims and a counterclaim for false advertising and unfair competition to stop Labatt from misleading consumers in believing that Labatt invented ice beer and ice brewing.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

- We are also seeking a declaration that Labatt has no exclusive rights in the terms "ice beer" or "ice brewed."
- The discovery process has just begun and we are awaiting a hearing date on the Motion to Dismiss. The trial is expected to be scheduled in the second quarter of 1995.

Fat Boys Lawsuit

13. We read that rap group The Fat Boys sued Miller Brewing Company. What is the status?

(N)
- The Fat Boys sued Miller in 1988, claiming that Miller infringed their copyright and rights of privacy and publicity in a parody commercial for Miller Lite.
- Miller does not believe the case has merit.
- Under an indemnification provision with advertising agency Backer Spielvogel Bates, the agency, not Miller, would be liable. The case, therefore, will have no significant financial impact on Miller.
- Recently, the court denied a motion for a summary judgement to dismiss the claim. The case will now go to trial unless a settlement is reached.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food

Oscar Mayer vs. ConAgra

14. What is the status of the lawsuit between ConAgra and Oscar Mayer?

- A jury in a Wisconsin federal court found that two Oscar Mayer patents were valid and willfully infringed by ConAgra. The jury awarded Oscar Mayer $9.8 million actual damages, and the court entered an injunction against ConAgra enjoining further infringement.
- The patents relate to poultry products in which a lactate salt is added in an amount effective to delay the growth of Clostridium Botulinum. All poultry processors who use the patented invention are paying royalties except ConAgra, who sold infringing products under the Healthy Choice and Butterball brand names. Oscar Mayer is also asking the federal judge who presided over the trial to increase the award based on the willful conduct by ConAgra. Oscar Mayer believes the judgment is sound and will survive any post judgment motion or appeal by ConAgra.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Nabisco RTE Anti-Trust

15. What is the status of the Nabisco Ready-to-Eat Cereals anti-trust suit in New York?

- The suit is still pending, but we consider it is unjustified.
- We consider that the transaction is closed, and are making plans to integrate the business into our operations.
- In addition, the State of New York is attempting to prevent KGF from adding the Post trademark to the Nabisco mark on the Nabisco brand ready to eat cereals, while the State's case for divestiture is pending.
- We do not expect a ruling on this second issue until March, but believe that we will be successful with regard to this issue as well as on the merits of the State's divestiture action.

Bongrain Cheese

16. What is the status of KGF's suit against Bongrain Cheese?

- The US District Court of Pennsylvania granted PM's motion for preliminary injunctions against Bongrain Cheese on December 23, 1993 based on trademark infringement of our famous PHILADELPHIA trademark.
- Bongrain is prohibited from distributing and selling "Pennsylvania" cream cheese in Argentina, Uruguay and Brazil.
- In January, KGF filed a complaint for damages and Bongrain filed a motion to vacate the order.
- Negotiations are pending, and we expect a final agreement to be concluded shortly.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Highlands Ranch

17. Why have Highlands Ranch homeowners filed a class action lawsuit?

- Three of our home buyers say they have problems finishing their basements and therefore feel that the value of their homes have been reduced. They claim that MVC did not provide adequate disclosures regarding soil conditions which would have affected their decision to purchase their homes.
- The required information about the soil was given to each of the homeowners. In addition, these houses have a 10-year structural warranty issued through a third party insurance company so the alleged structural problems would not be our responsibility.
- Hearings have not yet been held to determine if the lawsuit will be allowed to proceed as a class action.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco

ABC Lawsuit

18. Why did PM file a $10 billion lawsuit against ABC?

(N)
- We filed a lawsuit against the American Broadcasting Companies and several ABC employees for false and defamatory statements made on ABC's *Day One* news show and other news programs.
- The essential allegation by ABC on those broadcasts was that cigarettes are ***"artificially spiked"*** with nicotine during the manufacturing process ***"in order to keep people smoking."***
- This allegation and similar ones made by ABC are not true, and ABC knows that they are not true.
- ABC was aware of the facts prior to the February 28 *Day One* broadcast. ABC chose to ignore the facts. As a result of the false and defamatory statements broadcast by ABC among other things:
  - — the price of PM stock declined dramatically;
  - — Members of Congress called for investigations into the cigarette-manufacturing process;
  - — Commissioner Kessler of the FDA expressed his concern;
  - — President Clinton stated "that really bothered me when I heard that more nicotine was going in to make sure that people were hooked."
- We're seeking redress for the harm caused by ABC's false claim.
- The action we took on March 24 is the most recent example of PM standing up for itself, our shareholders and our consumers.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

EPA/ETS

19. What is the status of the EPA law suit? What would be the impact of a win for PM and the other plaintiffs? What would be the impact of a loss? How much has the suit cost the industry? PM?

- PM and several other businesses and organizations in the tobacco industry have sued the EPA.
- At present (as of 2/1/94) the EPA has filed a motion to dismiss the case and we have filed our response in opposition. The EPA's motion is based on legal technicalities and does not address the merits of our law suit. We are awaiting the decision of the judge.
- A win will vindicate our position that the EPA was not justified in taking the action it did. We hope that the public and policy makers will then reconsider unreasonable restrictions and bans that are based on the EPA risk assessment of ETS. In the future, we expect that the EPA's demonstrably flawed risk assessment will not be used as a basis for any new sanctions against smokers.
- Because the EPA's motion to dismiss is technical and does not discuss the merits of the case, a win for the EPA will not be a vindication of the EPA's action in arriving at its risk assessment on ETS.
- We do not, as general policy, comment on the costs of litigation. I will say that the loss to smokers and to PM of letting the EPA risk assessment go unchallenged is potentially much higher than the costs of bringing the suit.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

20. Have there been more lawsuits as a result of the EPA report of January 7, 1993, putting ETS on the EPA's Group A carcinogen list?

- At present (as of 2/11/94) there are 5 ETS cases pending against the industry, and PM Incorporated is involved in all of them. Of those cases, 3 were filed after the EPA risk assessment was published, and all 3 make reference to that risk assessment.
- While one can't say that the EPA report was the sole factor driving these new law suits, clearly that report had some impact on the filing of the new suits.
- While no one can predict the outcome of a specific case, we do not believe plaintiffs will be successful in these cases because the scientific evidence does not support such claims.

San Francisco Workplace Smoking Suit

21. What are the details of the lawsuit against the City of San Francisco which seeks to overturn that city's workplace smoking law? Is PM a party to the suit? Is PM paying the expenses of the plaintiffs?

- A group of businesses, including PM, has filed suit against the city and county of San Francisco, asking that its recently enacted smoking ordinance be declared invalid. The ordinance bans smoking in enclosed workplaces and the ban will be extended to restaurants in January 1995.
- The lawsuit charges that the San Francisco ordinance:
  - is preempted by state and federal occupational safety and health laws;
  - violates provisions of the California constitution by exceeding local authority and by denying plaintiffs due process.
- All parties are bearing some portion of the legal expenses. Those expenses are confidential.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco Litigation Impact on Other Operating Companies

22. Is there any danger that an adverse outcome of the smoking and health litigation against the tobacco company will affect the other operations of PM Companies?

- The company altered its corporate structure in 1985 to reflect more accurately the breadth of its geographic operations and business diversification.
- The operating companies now exist as first tier subsidiaries of the parent company. Each is operated separately, reporting its financial results to the parent.
- The company's tobacco subsidiary, PM Incorporated, believes, and has been so advised by counsel, that it has a number of valid defenses including preemption as decided in 1992 by the United States Supreme Court in Cipollone. PM Inc. will continue to vigorously defend all such cases.
- Admittedly, it is not possible to predict the outcome of this or any other litigation.
- Management believes, however, that no matter what the outcome of pending litigation is, it will not have a material adverse financial impact upon PM Incorporated, nor upon the other operating companies of PM Companies Inc.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Product Liability

23. How many smoking and health product liability suits are pending against PM? Against the cigarette industry?

- As of 2/11/94, there are 46 suits pending against the industry, including 21 against PM.

24. What defenses has PM asserted in response to existing smoking and health product liability suits?

- Among the defenses are:

  (a) Federal preemption;

  (b) general causation – does smoking cause disease;

  (c) specific causation – did smoking cause this plaintiff's disease; and

  (d) contributory fault – did the plaintiff smoke while aware of the claimed health effects of cigarette smoking.

25. Have adequate reserves been established to reduce the financial risks associated with pending and future smoking and health product liability suits?

- Because of our success in defending these suits, we do not presently believe that the pending suits will have a material adverse effect upon the financial condition of the company, and, accordingly, have established no reserves for potential adverse outcomes. We are constantly reviewing our reserve requirements, and will take action if and when it becomes appropriate.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

26. Is the issue of ETS in child custody cases going to have an impact on PM's tobacco business?

- It shouldn't. There are only a few such cases and even in those, smoking has been only one factor taken into consideration. We think it is improper for people who want to ban smoking to inject the issue of family break-ups into the debate.

Asbestos

27. How many asbestos cases are pending in which cigarette manufacturers have been named defendants? Will those cases be more difficult for PM to win?

- There are 5 lawsuits pending against cigarette manufacturers in which asbestos companies are also defendants. PM is a defendant in two cases: the Pitre and Williams cases. The issues in these cases are similar to those against the cigarette manufacturers only, and therefore, while the outcomes are not certain, we are optimistic about the outcomes.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Cigarette Excise Taxes

1. What is PM doing to combat the Clinton Administration's proposal to raise cigarette taxes by $.75 per pack?

   - Working to defeat the proposal with Senators and Members of the US House of Representatives in whose states and congressional districts we have plants and other cigarette-related facilities. These representatives in Congress are working to inform the President, the First Lady, and other key Administration officials of their opposition to the $.75 per pack proposal.
   - We have reached out to our employees, tobacco farmers, vendors, suppliers, and others whose livelihoods and businesses rely on the sales of tobacco products.

Public Policy Positioning/Third Party Support

2. Aside from lobbyists and trade associations, how else do we influence public policy debate?

   - PM is a strong supporter of public policy research institutes, popularly called "think tanks."
   - Via research and analysis, assessment of policy alternatives, coalition building, forums, and a variety of other communication strategies, these organizations can influence the policy debate, the legislative climate, and public opinion on issues of interest to the company.
   - They also can provide an "early warning system" concerning legislation, regulation, and changing public opinion.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

3. There have been numerous reports of tobacco industry "influence peddling." Specifically, PM has been accused of using substantial corporate money to defeat health legislation at the state and federal levels. Aren't the public and stockholders entitled to know how much PM is spending to influence public policy?

   - PM currently complies with all required disclosures for lobbying expenses.

4. Isn't it true that you use your company's tremendous financial clout to influence tobacco-related legislation?

   - We exercise our constitutional right.
   - All our political contributions or fund-raising activities conform strictly to federal, state and local laws.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

RESTRUCTURING *Rev. 3/25*

1. What is the impact of the restructuring charge and the adoption of SFAS No. 112?

- Two separate actions lowered 1993 net earnings by $952 million.
- First action was a restructuring charge which includes: plant closings, downsizings and other business consolidations.
  - $741 million pre-tax, $457 million after-tax, $.52 EPS.
  - No impact on IFO.
- Second action was a $495 million after-tax charge for the adoption of SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Now expense cost of severance benefits over working lives of employees. Previously, done when employee was terminated.
- SFAS No. 112 charge has two components:
  - Recurring charge for annual ongoing cost of anticipated severance,
  - cumulative, or "catch-up," adjustment.
- Recurring SFAS No. 112 charge:
  - In addition to $31 million already expensed.
  - $29 million pre-tax, $18 million after-tax, $.02 EPS.
  - In 1994, recurring pre-tax charge will be about $60 million.
  - Impacts IFO.
- Cumulative SFAS No. 112 adjustment:
  - Presented in our financial statements after Earnings Before Cumulative Effect of Accounting Change.
  - $774 million pre-tax, $477 million after-tax, $.54 EPS.
  - No impact on IFO.
- Total SFAS No. 112 impact: $803 million pre-tax, $495 million after-tax, $.56 EPS.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Restructuring Charge

2. What is the timing of these plant closings and over what period will you spread out the payments?

   - We anticipate the restructuring plan will be fully implemented by the end of 1997.

3. When do you expect to realize most of the savings from the restructuring?

   - About three years. When fully implemented in 1997, annual savings should reach about $1 billion before taxes, $600 million after taxes.

4. Is the September merger of Kraft General Foods Europe and Jacobs Suchard covered in this restructuring charge? What was the charge for that action?

   - The merger of KGF Europe and Jacobs Suchard is included in the current restructuring charge.
   - We cannot break out specific charges by business unit.

5. Do you plan to sell underperforming assets as part of the restructuring? Which businesses will you exit? Why?

   - We will exit some businesses that no longer represent a strategic fit.
   - None will be our core consumer products businesses.

6. What will you do with the proceeds from asset sales?

   - We haven't yet determined how we will use the proceeds.
   - They may be reinvested to grow and strengthen our core businesses.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

7. What percentage of the workforce reduction will be salaried employees? Hourly? How many domestic employees will be let go? How many overseas?

- We cannot provide a breakdown between salaried and hourly employees.
- Worldwide employment currently is at 168,000 — an increase of about 7,000 since the end of 1992, due to various acquisitions in that time.
- About 43% of PM's workforce was located outside the US at year end 1992. The percentage is now slightly higher, but we can't provide an exact figure at this time.

8. How are the workforce reductions broken down by operating unit?

- We cannot comment on specifics of our workforce reductions.

9. Of the 14,000 jobs you plan to cut, how many will come from early retirement and attrition, and how many will be actual job losses?

- We cannot comment on specifics of our workforce reductions.

2022990968

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

10. How were your earnings and cash flows impacted in 1993 and 1994 by the costs of the restructuring?

- For 1993:
  - Lowered net earnings $457 million, $.52 EPS.
  - No material impact on cash flows.
- For 1994, no negative impact on earnings from the restructuring.
  - Expect to realize significant savings next year, but we can't predict the bottom line impact.
  - Cash flow impact due to severance payments, but we cannot estimate amount.
- Long-term, reduce cost base by approximately $1 billion pre-tax $600 million after-tax by 1997.

11. Do you plan to centralize any shared administrative services as part of the restructuring?

- There may be some consolidation of administrative services, such as finance and human resources, in each of our operating units, but those decisions have yet to be finalized.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

12. When was the last time you had a major restructuring?

- First across-the-board restructuring. Past restructurings have focused on individual business units, mostly food.
- Used restructuring reserves twice in the past four years.
- In 1989, $179 million reserve to reorganize our Maxwell House coffee division in the US. Reserve used to pay for the closing of our Hoboken plant and restructuring of our remaining manufacturing operations. Maxwell House became profitable in 1990. This year, the division's operating income will approach $100 million for the first time since 1985.
- In 1991, $455 million write-off, approximately $250 million of which was related to restructuring our Oscar Mayer unit in the US.
  - Closed two turkey plants and two red meat plants,
  - reduced headcount by over 25%,
  - realizing ongoing annual savings of more than $50 million.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

13. You mentioned in previous analysts meetings that you have reduced your cost base by $2 billion since 1992. What steps did you take to achieve those savings?

- In North American food:
  - Completed or announced closings of 15 plants, and of several distribution and other facilities.
  - Together with early retirement and other programs, these measures will have saved us nearly $200 million by the end of this year.
  - Productivity and synergy actions saved us another $300 million, bringing the two-year total to half a billion dollars.
- Offered early retirement programs across our US operations, including Miller, PM USA and our New York corporate headquarters. We expect our US headcount to be down by almost 10,000 employees by the end of this year, compared to the end of 1991, excluding acquisitions.
- In Europe:
  - Productivity and synergy savings this year alone should come to more than $120 million.
  - We expect another $211 million in savings through 1995 due to:
    - management and sales restructurings,
    - manufacturing improvements already identified through benchmarking studies,
    - rationalized distribution.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

14. With the passage of NAFTA, are any of the job cuts you are announcing today in reality manufacturing jobs that you plan to shift to Mexico?

- No connection between our plan and NAFTA.

SFAS No. 112

14. Why did you adopt SFAS No. 112 in 1993?

- All companies had to adopt SFAS No. 112 by January 1, 1994.
- We adopted the accounting standard in the fourth quarter of 1993, retroactive to January 1, 1993.

16. What impact did SFAS No. 112 have on 1993 earnings?

- The total impact: $803 million pre-tax, $495 million after-tax, $.56 EPS.
- Total has two components:
  - One-time cumulative adjustment: $774 million pre-tax, $477 after-tax, $.54 EPS.
  - Current-year incremental charge against 1993 IFO: $29 million pre-tax, $18 million after-tax, $.02 EPS.
- Previously, such benefits were expensed when severance occurred.

17. How much of this charge will cover severance costs associated with the restructuring?

- We can't provide that figure at this time.

18. Explain why this charge had no impact on 1993 cash flow.

- Adoption of SFAS No. 112 resulted in a non-cash charge to cover future severance payments.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

19. What is the ongoing annual charge you expect from SFAS No. 112?

- Pre-tax, approximately $60 million per year.

20 If you were not forced to adopt SFAS No. 112 at this time, how large a reserve would you have had to establish to pay for the restructuring?

- We can't comment on hypothetical questions.

General Corporate

21. What will your consumer products debt-to-equity ratio be at year end?

- Our debt-to-equity ratio was 1.41 to 1 at year end 1993.
- The debt-to-equity is expected to be 1.20 to 1 by year end 1994.
- Excluding the restructuring charge and SFAS No. 112 adjustment, the debt-to-equity ratio would have been 1.30 to 1 for 1993.

22. How will your credit ratings be affected by the restructuring?

- We do not anticipate that our credit ratings will be affected by the restructuring charges.

23. Was Stephen Wolf consulted on the restructuring plan?

- Yes. He was elected prior to the Board making its final decision.

Beer

24. On December 1, Miller announced the closing of its Fulton, New York brewery. How many employees will be affected?

- About 900 employees at the Fulton Brewery were advised of a plan to close the facility in two phases over the year.
- In total, about 1,200 Miller Brewing Company employees, including the Fulton employees, will be affected during 1994.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

25. How was the Fulton Brewery closing announced?

- Employees were notified by their supervisors.
- An employee announcement and press releases were issued that same morning.

26. Are severance packages being offered?

- Yes, to salaried employees.

27. Will there be more terminations at Miller? Is it over?

- We expect to continue to streamline as business needs dictate; but we believe the majority of the cuts are behind us.

28. What will Miller's employment be after the reduction in workforce?

- About 7,800 after the Fulton closing (including Molson and Leinenkugel).

2022990974

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Food

29. What are our plans for restructuring KGFNA's food business?

(U)
- Many of KGFNA's actions covered by the restructuring charge are already underway. These include:
  - Consolidation of Lender's West Haven, CT, headquarters into GF Baking in Bayshore, NY.
  - Closure of facilities:
    - Kankakee, IL coupon redemption/fulfillment center
    - Chambersburg, PA cultured plant
    - Weyauwega, WI Churney cheese plant
    - North Hollywood, CA Old Country Bread plant
  - Reengineering of finance and human resources transaction areas.
  - Refocusing of the technology and human resources organizations.
  - Sales force consolidations within Kraft USA and General Foods USA.
- These steps are expected to account for a large portion of the overall charge.
- The remaining actions will be targeted at specific locations and functions where significant cost savings are possible.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco

30. What are the reasons for the restructuring of PM USA that was first announced in December, 1991? How is it going? How long will it continue?

- Competitive pressures and the changing marketplace mean that increasing manufacturing efficiency is absolutely critical to future revenue growth.
- Our restructuring efforts to date have been quantifiably successful. We have taken literally millions of dollars in costs out of our manufacturing operations.
- We fully expect to continue restructuring and realignment.

31. What has been the impact of workforce downsizing in Richmond and elsewhere. Will there be more?

- Since 1991, the PM USA workforce has been reduced by more than 15%.
- Our PM USA workforce in Richmond will be reduced by 900 by June as part of USA's on-going restructuring.

32. Will you be manufacturing in 3 cities five-to-ten years from now?

- That is our current intention.

33. Will the PM USA -Stockton Street facility in Richmond be closing and will there be further layoffs?

- There are no plans to close Stockton Street in 1994.
- We are constantly evaluating our business needs in order to remain competitive.

2022990976

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

34. What are the long term plans for your Louisville facility?

- We intend to remain in Louisville for the foreseeable future.

International Tobacco

35. Is PM going to schedule layoffs or early retirement in its overseas offices?

(N) - Our international business is growing, and at the moment there are no plans envisioned. We continue to manage our international operations with very tight cost controls.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

STOCK MATTERS *Rev. 3/22*

1. What long-term impact will the restructuring you announced on November 24 have on PM stock?

   - The restructuring will significantly reduce our cost base and improve our future growth, profitability, and cash flow.

Dividend

2. You recently raised the dividend by 6.2%. Given the domestic cigarette price increase you announced at the end of last year, plus cost reductions from the restructuring, why didn't you raise the dividend even higher?

(U)
- The Board decided that the increase was appropriate given the company's current financial picture.
- Some of the cash generated by our cost-cutting activities is being re-invested in our businesses.

3. What is the current payout ratio?

(U)
- Current payout ratio is 60% (based on $4.60 underlying earnings and current dividend of $2.76).
- Current consensus estimate for 1994 earnings is $5.23; at current $2.76 dividend, payout ratio would be 53% in 1994 (as of 3/3/94).

4. Do you think PM stock is undervalued at this point?

   - Yes, we do. PM has the world's best brands.
   - We are better positioned than most companies to compete in slow-growth world economies.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Share Repurchase

5. You announced that you are resuming share repurchases under an existing authority. Have you actually began buying back shares?

(U)
- $1.2 billion in an existing two-year authority to repurchase shares.
- Authority extended from May expiration to the end of 1994.
- Will continue to repurchase shares from time to time throughout the year, as management deems appropriate.

Stock Price

6. Why is the stock price so low?

(U)
- The price decline does not reflect any broad, company-wide problems in our business, nor any basic weakness in our financial position.
- Tobacco industry is under attack.
- Negative reaction to our domestic tobacco pricing strategies
- Threat of higher excise taxes.
- Stock is currently up 20.8% versus a low of $45.50 per share in September 1993.

7. What plans do you have to increase the stock price?
- Over long term, share price is determined by earnings growth. We are committed to achieving strong growth.
- Restructuring improves our position as low-cost competitor - frees up cash for strategic acquisitions, growth.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

8. What steps are we taking to counter moves for divestment of tobacco shares by institutional investors?

- We make ourselves available to answer questions from any institution considering divestment.
- Have developed extensive position papers for financial analysts and institutions.
- We emphasize very strong long term returns achieved from investment in PM.

Stock Split

9. At what point would you consider a stock split?

- We have split stock on six occasions since 1965, and one share of stock then is worth 192 shares today.
- Splits have occurred at prices ranging from $60 to $160.

10. Have certain investment firms changed their recommendation to buy PM?

- As of 3/18/94, most major sell-side analysts are recommending a "buy" on PM stock.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Share Ownership

11. Who owns PM?

(U)
- Large institutional investors own approximately 62%.
- Individuals, including employees, own remaining 38%.
- Share ownership in Philip Morris can be broken down as follows:

- Individuals	34.0%
- Money Managers	22.8%
- Banks & Trusts	15.4%
- Foreign	13.1%
- In-House Pension	5.3%
- Mutual Funds	3.1%
- Insurance Companies	3.0%
- Employee Plans	2.8%
- Officers & Directors	0.5%

12. Have any officers or Directors sold company stock on account of smoking and health products liability suits against PM and cigarette industry?

- To the best of our knowledge, no.

13. How many shareholders does PM have?

(U)
- Approximately 164,400 registered shareholders of common stock and 550,000 street name holders. 714,400 total.
- 935.3 million common shares issued

  58.2 million treasury shares as of 12/31/93

  877.1 million outstanding

14. What is the company's current market value?

- Approximately $48 billion (as of 3/18/94).

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

TAXATION *Rev. 3/7*

Taxes/Budget

1. How can PM justify its support for the 1993 Budget Agreement Congress passed that contained sharply higher taxes?

   - It's important that we cooperate with officials in the executive and legislative branches.
   - The 1993 Budget Agreement did take a significant step in cutting federal spending in an effort to close the large federal deficit.
   - In our discussions with government officials, we continue to stress that the solution to our long-term viability demands that we control federal spending rather than increase taxes.

VAT/Consumption Taxes

2. Various Members of Congress have indicated that they will introduce legislation to encourage savings through the imposition of VAT taxes or other forms of consumption taxes. What is PM's position on these types of taxes?

   - We have first-hand knowledge of how value-added taxes and other consumption taxes are imposed.
   - We formed an internal task force late last year charged with determining where PM should position itself concerning potential adoption of a VAT.
   - Imposition of a VAT would be in the company's interest only if it was a replacement for existing or proposed additional excise taxes on cigarettes, or, as a replacement for some or all of the corporate income tax.

2022990982

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

- Particularly under the scenario of an add-on VAT, it is only the zero-rating/exemption of food products under which PM is not hurt measurably. Prohibitively high increases in cigarette excises have a much greater impact on our profitability than does imposition of a VAT, even if preferential treatment is granted to food products.
- We have had some negative experiences in the EC from the imposition of value-added taxes and excise taxes, and we intend to participate in the debate here in the US.

Health Care Reform/FET (General)

3. Should excise taxes on tobacco and alcohol products be increased to pay for the cost of health care reform?

   - Controlling escalating health care costs should obviate the need to raise taxes. However, if additional revenue proves necessary, it should come from broad-based, equitable taxes, and not from excise taxes, which are regressive.

4. With the recession in Western Europe and Japan, and the governments pressured for revenues, do we expect additional tax/pricing demands as a result?

   - Increased tax pressures already exist.
   - We still managed to increase profitability in most of our markets.

5. The press has stated that there may be a need to tax other so-called "sin products" to achieve the funding levels that the Administration's health care reform plan will need. What is the company's position as it relates to additional taxes on cigarettes and beer?

   - We do not agree with the term "sin tax."
   - We oppose all product-specific excise taxes. Excise taxes are regressive.

2023990983

Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Beer

Excise Taxes

6. What percentage of the price of a beer goes to taxes?
   - The federal excise tax on a six-pack of beer is $.32.
   - Taxes on beer had already exceeded the combined cost of the labor and ingredients used to brew it even before the latest 1991 increase.

7. How much of the cost of excise taxes is passed along to the consumers?
   - All increases in excise taxes are passed on to consumers.

Food

8. What is PM's position on snack taxes or other food taxes?
   - We oppose any discriminatory product taxes that would attempt to distinguish between "good" and "bad" food products.
   - We oppose food taxes generally because they are regressive and unfairly burden those least able to pay.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Tobacco

Health Care Reform/FET

9. What is the status of the Clinton administration's proposal to increase the federal excise tax on tobacco?

   - The President sent his written plan to Congress, which included a proposed 75-cent increase per pack on cigarettes on October 27.
   - The media reported that the 75-cent figure represented a compromise, that the administration had not expected the sustained intensity of the opposition it got from tobacco state legislators, from smokers and from the tobacco industry.
   - PM does not consider a 75-cent per pack increase a compromise and is fighting any increase.

10. What is PM doing to combat the proposal to raise cigarette taxes by $.75 per pack?

   - Our employees have written letters opposing the tax increase.
   - Our employee unions and small tobacco farmers throughout the tobacco growing regions of the south and east are also very active against the tax.
   - We are supporting a number of economic impact studies in key states which show exactly how many jobs are at stake that are directly or indirectly tied to tobacco.
   - We have started to include tax information cards with the merchandise that is being redeemed through the Marlboro Adventure Team promotion. To date (11/11/93) more than 27,000 individuals have received the cards.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

- We are adding to our database as a result of the survey that was sent out with the Bill Campbell letter to the majority of adult smokers.
- We have joined forces with RJR, using their database of names to provide information about the tax issue.
- We are lobbying Congress.
- We have marketing contingency plans that address potential increases in the FET.

11. Aren't you being hypocritical in complaining about an excise tax increase and its regressive nature when you raised your prices like there was no tomorrow all through the 1980s?

- Not at all. Pricing is set by the dynamics of a free market system which include the cost of doing business, economic conditions, and the willingness and ability of consumers to pay.
- Excise taxes are artificial, arbitrary, and permanent. Excise taxes are unaffected by supply and demand.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

12. If federal taxes were increased sharply, how badly would it hurt PM's cigarette business? What will be the impact on the economy?

- The biggest threat to our business is that higher taxes tend to drive sales down.
- Cannot provide specific impact on PM.
- High taxes on cigarettes are inflationary, cause significant job loss, and are among the most regressive taxes on the books.
- Smokers try to find some way to mitigate the tax, such as buying their cigarettes on military bases or Indian reservations. Local businesses and government tax revenues suffer.

13. What about state and local excise taxes on cigarettes? How badly were we hit last year, and what can we expect in 1994?

- 39 state excise tax increases on cigarettes were proposed last year. Only 14, including the District of Columbia, were actually passed. This represents a success rate of nearly 65%.
- At the local level, 21 tax increases were proposed and 11 passed.
- We will probably see at least as many proposals to hike cigarette excise taxes this year.

14. If state and local taxes do keep going up, what will be the impact?

- The impact will be industry wide.
- Higher taxes tend to drive down sales.
- More smokers crossing the border into low tax states to stock up.
- Cigarette smuggling and hijacking increase.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

15. Will the EPA's report on ETS make it harder to defeat tobacco tax increases?

- Tax proponents may use the EPA report in an attempt to buttress their arguments, but we doubt if it will sway legislators or voters.
- Taxes are an economic issue, and we think the social engineering agenda of the EPA report is rather transparent to most legislators.

16. If the US raises its federal excise tax, do we expect similar increases in other countries? If so, what are we doing in anticipation?

- There's no reason to expect that the US tax policy will influence the domestic fiscal policy in other countries.
- Where tax increases are proposed, we will seek a higher specific tax component in order to narrow price differentials and provide greater insurance against price wars.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

TRADE *Rev. 3/24*

NAFTA

1. While I understand the company supports the NAFTA, could you provide an example of how, on the state and local level, we demonstrated our backing of this measure?

   - We were a charter member of USA*NAFTA and of New York for NAFTA, 2 organizations composed of companies that coalesced to influence the debate on NAFTA.
   - We provided momentum in support of this agreement through:
     - meetings with our elected representatives,
     - placement of ads in prominent media,
     - participation in the White House "Product Day".

2. How will NAFTA affect KGF's business?

   - Mexicans are already buying over $30 million worth of KGF products annually.
   - Improved access to the Mexican market will create additional demand for US products creating additional employment in the processing of value-added, packaged consumer goods.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

3. What is KGF North America doing to assess the opportunities resulting from NAFTA?

(U)
- KUSA, GF USA and KGF Canada are looking at a number of cross-border sourcing opportunities. This process started a few years ago with the signing of the Canada US Free Trade Agreement.
- Initiated a KGF North America-wide manufacturing strategy study with the objective of determining the optimum North American manufacturing configuration. This study will identify a number of improved cross-border sourcing opportunities that will benefit KGF North America as a whole. Study expected to be completed at the end of 1994.

4. Isn't NAFTA going to create a big super-national entity like the European Community?

- No. NAFTA deals with economic matters dealing largely with trade and investment, while the EC is striving for political as well as economic unity.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

KGF Canada

5. What will the impact of NAFTA be on KGFC?

- Since the signing of the Canada-US Free Trade Agreement a few years ago, KUSA, GF USA, and KGF Canada have conducted studies together to identify cross-border sourcing opportunities. As a result, we have realigned some production to take advantage of superior capabilities in Canada and the US.
- Even before the implementation of NAFTA, we initiated North America-wide manufacturing studies which include Mexico to identify opportunities that will benefit KGF North America as a whole.
- Additional processing opportunities are expected.

Canada - US Free Trade (CUSTA)

6. Since its passage, how has the Canada-US Trade Agreement impacted KGF?

- This agreement has allowed KGF to better serve its North American customers by rationalizing our production facilities between the US and Canada.

7. What does NAFTA do to CUSTA?

(U)
- CUSTA is largely subsumed within the NAFTA.
- Tariff reduction schedule in the CUSTA will continue, with the result that all tariffs between the US and Canada are to be eliminated by January 1, 1996.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Oscar Mayer

8. Is Oscar Mayer expanding into Mexico or Canada?

   - Oscar Mayer entered into a distribution agreement with Sigma Allmentos in April of 1993 to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Mexico.
   - Oscar Mayer has entered into distribution agreements with distributors in Canada to distribute Oscar Mayer, Louis Rich, and Claussen branded products in Canada.

GATT

9. How will the recently-completed Uruguay round of GATT negotiations affect our KGF North American business?

   - The most significant outcome of the GATT will be to open up, over time, all borders to significantly increased imports of agricultural products, particularly processed products.
   - The GATT agreement will convert quota systems to tariffs, which are to be reduced over a long period of time, as much as 15 years.
   - We do not expect any significant impact in the near term.

     [Note: No Uruguay round concessions become effective until July 1, 1995.]

10. Formal complaints concerning the new US leaf law have been submitted to GATT. What is the status?

    - On January 25, 1994, the GATT council agreed to establish a dispute panel to investigate complaints that the law is inconsistent with US GATT obligations.
    - The three-member panel is to be selected by mid-February. These members must be approved by the US and the Complainants.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

11. What impact does the GATT agreement have on the international business?

- It calls for the elimination of non-tariff barriers and their replacement with import duties - which are to be reduced.
- It will take as long as 6 years for there to be a noticeable affect on our tobacco business and 15 years to affect our food business. Nevertheless, this represents improved overall access.
- Due to the complexities of the agreement which are still unfolding, opportunities are still being assessed.

Fiscal Policy

12. There are still many foreign currency problems in Eastern European countries, the former Soviet Union, and China. What are we doing to ensure a stable flow of hard currency?

- We are presently making money in our cigarette business in Russia and other various republics of the former USSR.
- PMI has developed a network of private distributors in the former Soviet Union who purchase our products for hard currency or guaranteed credit support.
- In China, current PRC regulations require foreign cigarettes to be sold in hard currency (Foreign Exchange Certificate).

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000

Currency Fluctuations

13. As currencies fluctuate throughout Europe, how does this impact KGFI's business, and what plans do you have to lessen a negative impact?

- The translation of local operating results into US dollars negatively affected 1993 results by $98 million. The cross-rate fluctuations within Europe adversely impacted us by $105 million.
- Transaction losses were due to major devaluations of the Italian Lira and British Pound Sterling vs. the Mark in Germany and Franc in Belgium.
- KGFI actively monitors the foreign exchange markets.

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Source: https://www.industrydocuments.ucsf.edu/docs/xpvl0000